A PLAN OF ACTION

A PLAN OF ACTION

EMBODYING A SERIES OF REPORTS ISSUED BY THE RESEARCH COMMITTEE OF THE EMPIRE ECONOMIC UNION AND OTHER PAPERS

TOGETHER WITH AN INTRODUCTION BY

THE RT. HON. L. S. AMERY

Under the Providence of God, after centuries of laborious cultivation, the sacrifice of much heroic blood and the expenditure of a vast amount of treasure, the British Empire, as it stands, has been got together, and the question . . . is : 'What is now to be done with it?'

JOSEPH HOWE

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INTRODUCTION

On February 4 the House of Commons met to close an era. We knew that we had come to hear a statement which, whatever its details, meant that the reign of Free Trade was over, that the principle which had dominated our national policy since the Repeal of the Corn Laws was now to be abandoned; abandoned, we all knew, irrevocably. Historic memories, the shadow of great names, hung over us as we crowded the benches in the suspense of expectation.

As the Chancellor of the Exchequer proceeded in quiet, businesslike tones to unfold his case, my mind went back to that third reading debate, eighty-six years ago. I thought of Peel, 'the greatest member of Parliament that ever lived', standing where Neville Chamberlain stood, and consummating that surrender to Cobden and the fashionable economic theory of the day, which was destined for three generations to divert the course of our national life, and which all but lost us the Empire—as, indeed, it was intended to do. I thought still more of the dæmonic figure of Disraeli, and there rang in my ears the passionate and prophetic closing sentences of his speech of protest:

> 'It may be vain now, in the midnight of their intoxication, to tell them that there will be an awakening of bitterness; it may be idle now, in the springtide of their economic frenzy, to warn them that there may be an ebb of trouble. But the dark and inevitable hour will arrive. Then, when their spirits are softened by misfortune, they will recur to those principles that made England great, and which, in our belief, will only keep England great. Then, too, sir, perchance they may remember, not with unkindness, those who, betrayed and deserted, were neither ashamed nor afraid to struggle for the "good old cause"—the cause with which are associated principles the most popular, sentiments the most entirely national, the cause of labour, the cause of the people, the cause of England!'

For forty years after Disraeli lived on, a great Parliamentary figure. But never the man he might have been. Henceforward he was a prisoner of the spirit, breathing an alien atmosphere. The new gospel, curiously compounded of mathematical certainty and humanitarian exaltation, of the dream of unlimited markets abroad and the determination to keep wages strictly limited at home, swept like a flood over the country. Before long the coincidence of prosperous years had converted it into an orthodoxy which, for half a century and more, no educated man dared openly to question. 'Protection was not only dead, but damned.'

For all that an element of dissent survived. Like some heresy in ancient times Protection was handed down as a private creed in many families, even when its members recognised the futility of giving public expression to their convictions. In the rank and file of the Conservative Party it remained a latent, but never wholly suppressed, tendency, from time to time reasserting itself. It was not from that quarter, however, that effective revolt was to raise its head. No one had hammered the Conservative Fair Trade movement more effectively on orthodox lines than Joseph Chamberlain. Nor was it any very serious misgiving as to the economic soundness of England's trade policy that first began to set his mind on a new course. But from the time of his visit to Canada in 1887 onward, through the great years of his contact with Colonial affairs, Mr. Chamberlain moved steadily in the direction of a reversal of the established policy, at any rate to the extent of some moderate measure of Imperial Preference. Year after year he educated public opinion towards a conception which demanded methods which he dared not yet publicly avow.

On May 15, 1903, he came out into the open, and, while still claiming to be a Free Trader, stated the case for Preference, and demanded that 'a discussion on this subject should be opened'. It was opened with a vengeance! The Birmingham speech was a challenge to free thought as direct and provocative as the theses which Luther nailed to the church door at Wittenberg. To many of the younger generation, passionately Imperialist by conviction, beginning to be intellectually

sceptical about Free Trade, the speech was a sudden crystallisation of all their ideals in an imperious call to action. My mind went back to that morning when, the speech just read, I walked up and down my room in uncontrollable excitement. The door flung open, and in rushed Leo Maxse, whose loss we have so recently deplored. For a minute we danced round hand-in-hand before we could even unloose our tongues. Within an hour I was busy telephoning to friends and getting together the nucleus of what a week or two later became the Tariff Reform League. How glorious those days were! How confidently we believed in the speedy conversion of the country to conclusions so obvious, to so splendid a vision. How lightly we reckoned with the depth of the prejudice, interwoven into the very fabric of our fellow-countrymen's thoughts, with which we had to contend. How little we foreknew all the mischances, the weaknesses, the betrayals that were to divert the course of politics and frustrate our hopes. And now the endless years were over. The long war was won.

Neville Chamberlain continued lucidly, cogently setting out the facts of the present economic situation and expounding, like a chairman to a meeting of shareholders, the practical steps which he proposed to take. Listening intently to catch every point, planning what to say a little later, I yet found my thoughts straying away to that amazing single-handed campaign which Joseph Chamberlain carried on for three years, before he broke down. I could see the head thrust forward, the arm uplifted, the whole purposeful personality of the greatest political fighter of our day, as I had seen it so often on that very bench and on so many a platform. I could hear the matchless tones of his resonant voice, sustained in argument, hardening in scorn, uplifted in prophetic inspiration. My eye and ear turned back to his son, trim in figure, sparing of gesture, betraying neither in argument nor by inflexion the strength of will that must have been expended in getting his way, with scarcely a phrase to suggest that he was dealing with a subject which could provoke controversy or stir emotion. He paused, and in a lower note turned to the

thought that had been uppermost in all our minds throughout his speech:

> 'There can have been few occasions in all our long political history when to the son of a man who counted for something in his day and generation has been vouchsafed the privilege of setting the seal on the work which the father began but had perforce to leave unfinished. . . . His work was not in vain. Time and the misfortunes of the country have brought conviction to many who did not feel that they could agree with him then. I believe he would have found consolation for the bitterness of his disappointment if he could have foreseen that these proposals, which are the direct and legitimate descendants of his own conception, would be laid before the House of Commons, which he loved, in the presence of one and by the lips of the other of the two immediate successors by whom his name is carried on.'

* * * * * * * * *

At long last we are realising that we must reconstruct our whole national life. We have to build upon a new foundation, and the only foundation broad enough for our needs, under modern conditions, is the foundation of the Empire. The conception of Empire Economic Unity is one that appeals equally to our practical sense and to our instinctive idealism. It is internationalism on a practical plane, nationalism on a wider scale and with a more generous outlook. The essential first step lies in the restoration of economic security and financial stability in this country, whose market and whose industries are still the dominating factor in Empire production and Empire consumption, and whose finance must for long be the mainspring of its development. The next is to work out, in consultation with our partners in the Empire, a common or complementary fiscal policy, an Empire-wide plan of rationalisation both for industry and agriculture, an Empire monetary and investment policy, an Empire policy of communications. Such a reconstruction can only succeed if behind it there is the driving power of a positive economic doctrine, of a definite vision of the future, of a clearly thought-out Plan of Action.

The Import Duties Act and the Wheat Bill constitute an important instalment of the Plan of Action which is required.

But they are only an instalment, and much has yet to be done before a complete plan is in operation. It is from this point of view that it has been suggested to me that it might be useful to incorporate in more permanent form the series of reports on the various aspects of our economic problem which have been issued during the last eighteen months under the auspices of the Empire Economic Union. These reports were prepared either by the Research Committee of the Empire Economic Union, or by joint Committees of that Union and of other bodies such as the Federation of British Industries or the Central Chamber of Agriculture. In each case it was my privilege to preside over the investigations, and I should like to pay my tribute of gratitude to my colleagues, as well as to the research staff of the Empire Economic Union, under the very able direction of Mr. H. G. Williams, for their co-operation in a task which has occupied us over the greater part of the last two years.

We did not attempt the task of framing an industrial tariff for this country in view of the fact that this matter was being taken in hand by the Research Committee of the Conservative Party, as well as by another independent research staff working under the direction of the late Mr. W. A. S. Hewins. But I have included in the present volume, in addition to a short summary of the Import Duties Act, and some comment on its main provisions, a memorandum on the general Principles of an Industrial Tariff, prepared last year by the Federation of British Industries. The Agricultural Report which, with its appendices, occupies Part II of the volume, is of special interest inasmuch as it embodies a tariff policy for agriculture which was worked out in consultation between representatives of agriculture and of industry and which has since received the general endorsement both of the Federation of British Industries, and, in a remarkable measure, of the agricultural community. The Interim Report on Imperial Preference, which forms Part III, not only endeavours to lay down the general principles which should govern the establishment of an Imperial Preferential system, but to work them out to practical detailed conclusions in the shape of

draft agreements with the other governments of the Empire. The Report on the Economic Position of the Colonial Empire contains, in addition to a useful summary of economic information with regard to the Colonies, a careful consideration of the various treaty obstacles to the immediate establishment of effective 'Empire Free Trade' in our African Empire. The Report on Empire Monetary and Financial Policy with its appendices on a Sterling Monetary System and on the guidance of investment into Imperial channels, opens up issues which stand next in order of urgency, and equal in order of importance, to those involved in Imperial Fiscal Preference.

A volume composed of a series of separate reports naturally lacks something of the individuality of style and of arrangement characteristic of the work of a single hand. At the same time I believe the reader will find a very real unity of thought running throughout the series, while the concurrence of a number of minds will, I trust, add weight to the conclusions here set out. It embodies at any rate the outlines of an effective Plan of Action.

L. S. AMERY.

March, 1932.

PART ONE

A TARIFF POLICY FOR INDUSTRY

PART ONE

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A TARIFF FOR INDUSTRY

FOREWORD

THE INITIAL step in the setting up of an industrial tariff for the United Kingdom has already been taken by the passing into law of the Import Duties Act, 1932, and by the establishment of the Advisory Committee under that Act. I trust that before this volume is published the Committee will have recommended a provisional *ad valorem* tariff, and that this part of the Plan will be already in action. I have not thought it necessary, therefore, to include in this part more than a brief summary of the Import Duties Act itself, together with a memorandum drawn up towards the end of 1931 by the Federation of British Industries, setting out some of the main principles which should govern an industrial tariff. Some general reflections on the chief features of the measure may, however, not be out of place.

The Import Duties Act fulfils one essential condition for the first step in the work of reconstruction. It is broad in scope and Imperial in conception. It imposes, subject to certain important exemptions, a 10 per cent duty on all foreign imports irrespective of category. The artificial distinction between manufactures, foodstuffs and raw materials is disregarded, the only test being the adequacy of the untaxed supply to our requirements. All Empire imports are free, Colonial imports without reservation, those from the Dominions, including for this purpose Southern Rhodesia, and from India until November 15, pending the outcome of the discussions at Ottawa. This great instalment of 'Empire Free Trade' is not only a piece of wise statesmanship from the point of view of preparing the ground for Ottawa. It has a most important bearing on one immediate and vital objective, the maintenance of the strength of sterling.

It is essential to remember that the position of sterling depends, not so much on the balance of payments of the United Kingdom as on the balance of payments of the wider sterling area, which at this moment includes the whole Empire, except Canada and South Africa. By transferring to the sterling area purchases which we should otherwise have made from foreign countries outside the sterling area, we strengthen our exchange position just as much as if they had been transferred to home production. The same applies, though in a somewhat lesser degree, to Empire countries not actually upon the sterling basis, in so far as they are normally better customers than foreign countries, and imports from them create a proportionately larger return trade.

The list of exemptions consists of all articles already subject to customs duties, and of certain important categories of foodstuffs and raw materials. Among the former are wheat and maize, meat, including ham and bacon, and tea. Among the latter are raw cotton, wool and flax, hides, rubber, iron ore and scrap, metallic ores and concentrates, unwrought copper, wooden pit props, wood pulp and newsprint, cotton and rape seed and linseed, mineral phosphates of lime and potassium salts. Of these some, such as iron ore and cotton, to name the two most obvious instances, are likely to remain permanently exempted. Others, like wheat, meat, wool, newsprint and wood pulp, should secure reconsideration after Ottawa, and also, so far as meat is concerned, upon evidence of adequate organisation of the supply capacity of British agriculture. Tea, the Chancellor of the Exchequer has already indicated, is to wait to be considered along with coffee, cocoa and sugar when he deals with his Budget. The exemption of newspapers and books is a natural and proper concession to Free Trade in the realm of thought, and might with advantage be balanced by corresponding concessions in the field of art. A real defect in the Act, namely, that articles now on the exemption schedule, or subsequently added to the schedule at the instance of the Advisory Committee, cannot be subjected to a duty without fresh legislation, is fortunately to be remedied in the coming Finance Bill.

Meanwhile the general 10 per cent will include all manufactures not already liable to duty, wheat flour and all cereals except wheat and maize, dairy produce, eggs, poultry and game, foreign-caught fish, all kinds of fruit and vegetables not already dutiable, and, among raw materials, all kinds of timber (except pit props), jute, copra, ground nuts, palm kernels and crude petroleum. The total value of foreign retained imports which will thus become dutiable amounted in 1930 to £300,000,000, in addition to £144,000,000 already dutiable at that date and £51,000,000 since made subject to orders under the Abnormal Importations Act. The retained import of articles under the Free List was for the same year £344,000,000.

For the purposes of British industry the 10 per cent general duty is, avowedly, only the starting-point or foundation. The superstructure of a more scientific tariff scheme is to be left entirely in the hands of an Import Duties Advisory Committee of from three to six salaried whole-time members, who can recommend 'additional duties' which may then be put into effect by Treasury order, subject to subsequent Parliamentary approval by resolution. The articles thus to be dealt with are those which are in the opinion of the Committee 'either articles of luxury or articles of a kind which are being produced or are likely within a reasonable time to be produced in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption', and the Committee in considering these articles are to 'have regard to the advisability in the national interest of restricting imports into the United Kingdom and the interests generally of trade and industry in the United Kingdom, including those of trades and industries which are consumers of goods as well as of those which are producers of goods'. The provision of employment as a criterion is, curiously enough, not mentioned, though it is presumably covered by the general reference to the interests of trade and industry. Subject to these somewhat vague directions the discretion of the Committee is apparently unfettered, and they are free, on the face of the Act, to impose as low or as high a tariff as they please, and on such principles and at such time as may seem good to them. They

are at liberty to use the Government's foundation in order to put up a bungalow or a skyscraper.

It is obviously desirable that the new tariff, especially in its early stages, should be as flexible and adjustable as possible, and that its detailed provisions and their modification from time to time should be kept outside the purview of Parliamentary lobbying. For this purpose an independent judicially minded Committee is an essential element to success. It may be doubted, however, whether too great a responsibility has not been thrown upon these 'strong, wise men', as Mr. Runciman has called Sir G. May and his colleagues, in leaving to them not merely the adjustment of a tariff whose general outlines have been given them, but a completely free choice as to the kind of tariff they are to impose. The latter is a question of policy which can only be rightly settled by a government which has to decide such broad issues as the extent to which it wishes to show special favour to agriculture or to the urban consumer, the margins which it wishes to have available for negotiation, the relative importance which it assigns to home, Empire and foreign trade, or to immediate revenue from customs duties as against indirect revenue from increased production, in fact, the broad general structure of its tariff scheme. These are matters for which a government is bound to take responsibility, and which should not be left to the undirected conclusions of a small body of men who, however painstaking or impartial, will not be in a position to afford effective guidance with regard to them.

No less serious an objection to the method adopted is the gravely critical, and in some cases almost desperate, plight of industry. A 10 per cent duty is, under present world conditions, quite ineffective as a measure of protection, even if the prospect of higher duties later on were not a direct incentive to dumping or forestalling in the interval. It is true that the 10 per cent is additional to the protection afforded by the exchange. But that protection has been largely offset in some countries by special government action, *e.g.* in Germany, where all wages, salaries, rents, mortgages, railway rates and prices generally were cut down by 10 per cent or more last

December. More generally the desperate state of industry everywhere is forcing exports at prices which only exceptional measures can deal with. The abnormal protection of the exchange is far more than balanced by the abnormal conditions which are driving Continental makers to sell their steel here at £2 a ton and more below the cost of production.

Industry needs help immediately and, even more, needs certainty, at any rate in broad outline, as to the help it is going to get. At present it is left in complete uncertainty with the chaotic and unco-ordinated elements of a tariff. Some articles are subject to 33⅓ per cent duties which can only be altered by legislation. Others have duties of 50 per cent and higher, based on no principle except the accidental one of abnormal importation during certain weeks, which at the end of six months may be dropped to 10 per cent or varied to any other figure. Others have 10 per cent. No one knows on what principles, or within what time the Committee will deal with the problem. Meanwhile no one is in a position to make preparations, to raise capital for enlargements or re-equipment, to take on directing staff or workmen. Foreign manufacturers prepared to set up factories over here will prefer to wait and dump until the situation is more clearly defined.

There can be no doubt that the right course to have pursued was the one which a Conservative Government would have followed if it had taken office unencumbered by the trammels of Coalition, and for which it had made every preparation. That was to introduce immediately after the meeting of Parliament, and in advance of any possibility of forestalling, a general emergency *ad valorem* tariff with three grades of duty (probably five in the case of iron and steel), leaving it to a Tariff Commission subsequently to readjust details at leisure. I have no hesitation in saying, as one who took part for six months and more in that preparatory work, that such an emergency tariff would have contained very few serious mistakes, and that the task of the Commission in dealing with these would have been infinitely lighter than that which is professedly to be assigned to the new Advisory Committee. I say professedly, for I am not without hope that the

Act may mean more than it says, and that its apparently unsatisfactory procedure has only been framed in order to facilitate its passage through the Cabinet and through Parliament. If the Committee are, in fact, prepared to go ahead at once with the framing of a provisional general tariff, utilising work that has already been done, and issuing their recommendations in the next few weeks, no great harm will have been done, and much of the criticism of the previous paragraphs falls to the ground. This would, in any case, be the only businesslike procedure, for the real detailed adjustment of a tariff can never be done beforehand, but only after some sort of a tariff has been in actual operation.

In instructing, or advising, the Committee in that sense, the Government should equally give definite advice with regard to the general maximum rate of duty which it expects the Committee to recommend. On that vital issue two main considerations seem to me essential to keep in view. One is that the tariff, while high enough to give reasonable security to efficiency, should not be so high as to protect inefficiency or encourage profiteering, and should in no sense be exclusive. It should always permit of sufficient foreign importation, in most articles at least, to keep up the stimulus of competition, not only in respect of prices, but also of improvements in quality or design. The experience of the McKenna and Safeguarding Duties would indicate that a duty of 33⅓ per cent on fully finished manufactures has certainly encouraged enterprise and efficiency, has not raised prices, and, while securing the greater part of the home market, has not abolished the stimulus of foreign competition. In some instances, at least, it would seem definitely to have encouraged the export of the protected article.

The other consideration is that the duty, in the interest of the national revenue as well as of fair competition, should not be less than the veiled excise involved in the total direct and indirect incidence of taxation upon British production. Lord Snowden in the House of Commons in September estimated industry's share of the national burden of £1,000,000,000 of rates, taxes and insurance levies as equal to a third of its

whole output, and such calculations as I have been able to make would confirm the view that the total cumulative tax overhead on British production is not less than 25 to $33\frac{1}{3}$ per cent on fully finished manufactures. A duty of $33\frac{1}{3}$ on these articles would therefore be little, if anything, more than an equalisation, correcting the virtual protection which foreign imports at present enjoy over British goods in our own market. It would certainly not amount to high protection. On the other hand I do not believe a higher rate to be necessary or desirable, except in special circumstances, or possibly for bargaining purposes. The duty should be imposed, in my opinion, without reference to the state of exchange, not only for the reasons already given, but also because the exchange situation itself demands a more restrictive policy than is normally required, and is, in any case, a temporary and fluctuating factor.

The Act contains not a few obvious weaknesses which are bound at an early stage to attract the attention of the Committee, and which can no doubt be remedied in the next Finance Bill. The provisions for drawback are too limited and too rigid. No allowance is made for the possibility of a drawback being required on the export of a commodity made up with a dutiable raw material, *e.g.* rope made of Manila hemp. On the other hand, where drawbacks are allowed it is laid down that they should amount to a complete refund of the duty, a matter better left to the discretion of the Committee[1]. No power would seem to be given to the Committee to recommend mixed *ad valorem* and specific duties, the usefulness of which is specially emphasised in the Federation of British Industries' Memorandum on the Principles of an Industrial Tariff (see page 33). Unnecessarily cumbrous is the arrangement under which the Committee is only allowed to impose additional duties instead of being free to recommend the substitution for the existing 10 per cent duty of a single higher (or in some cases lower) duty. Nor is it clear why the Committee should be precluded from correlating to their general tariff scheme existing duties such as the McKenna and silk duties, and

[1]These defects have been remedied in the Finance Bill.

should only be allowed to consider the safeguarding and key-industry duties on the eve of their expiration.

From the point of view of British agriculture the 10 per cent duty again offers a foundation rather than a complete edifice. On dairy produce, eggs, poultry and fruit the help afforded by it will be appreciable and possibly in some instances sufficient. Its adequacy will, however, come under the consideration of the Advisory Committee which, according to Sir J. Gilmour's statement of policy on February 11, will devote particular attention to 'certain horticultural products' and to the practicability of imposing a higher duty on malting barley. There ought not to be an insuperable difficulty in establishing a workable discrimination between feeding and malting barley, whether by insisting that the former should only be subject to the lower duty if rendered unfit for malting by being stained or crushed, or, as has also been suggested, by weight, only the heavier grades of barley being suitable for malting. In addition to this the wheat-grower is to be made secure, within a total of six million quarters, by a quota and a standard price of 45s. guaranteed to him through the millers at the expense of the consumer, while sugar beet will, no doubt, in one form or another continue to receive a measure of support sufficient at least to maintain its present position. Where the 10 per cent duty will be of substantial importance to agriculture is in the encouragement which it will afford to the building up of rural industries based on the tinning or bottling of milk, fruit, vegetables and poultry or game.

The obvious gap in the scheme, as it stands at present, is the exclusion of meat, including pig products. Meat production is, over most of the United Kingdom, our main agricultural industry, and one whose development offers the greatest prospects for the future. The matter clearly cannot be left permanently where it is. On the other hand the Government has, no doubt, had to consider the effect of its whole programme on the cost of living, the defects in the existing organisation of our production in this country, and the possibilities of some really comprehensive agreement on the question of meat emerging from the discussions at Ottawa. Sir J. Gil-

mour and Mr. Chamberlain have already announced that the Government will be prepared to promote some form of quantitative regulation of meat imports, beginning with bacon, if satisfactory schemes for the organisation of the various branches of the industry can be evolved. But in the main the meat problem will have to wait for its solution at Ottawa. The problem of British agriculture is, indeed, over a large part of the field at least, inseparable from the wider problem of Empire agriculture, and it is to be hoped that the case of agricultural Britain will secure no less full consideration at the Conference than that of the other agricultural Dominions.

For that Conference the Bill makes an auspicious beginning. The wide measure of preference which it affords, together with other preferences already in existence or likely to be created as additional duties are imposed, will enable us to start the whole discussion on a fair and equal footing. Nothing could have been more shortsighted or unstatesmanlike than the idea, at one time seriously discussed, of imposing the 10 per cent duty on the Dominions provisionally as a bargaining-point for Ottawa. To approach the Conference in that spirit would, indeed, be a fatal misunderstanding of the whole problem. The object of the Conference is not to see how little we can give to the Dominions and how much we can secure in return, but to see how far we can enhance the value of preferences worth giving for their own sake by businesslike negotiation and by the permanence assured by definite agreements. The other Empire countries are so much our best customers that it is in our own immediate interest to give them preference without any careful reckoning of the precise measure of reciprocity we get in return. But preferences thus given obviously cannot confer nearly so great a benefit as those arrived at after close consultation. The fullest value, indeed, can only be secured from the Conference if the problem is regarded, not as one of bargaining, but as one of inter-Imperial rationalisation both of industry and agriculture.

Behind the problem of our own tariff and of Imperial Preference, and rightly relegated until after Ottawa, lies the problem of using our new-found powers to secure better terms for

our trade in foreign markets. There is no reason why negotiations to this end should in any way prejudice or weaken our Imperial policy, so long as it is clearly provided by our agreements with the Dominions that any special terms, any 'second preferences', given to foreign countries which are prepared to make concessions in our favour, are given not in diminution of Imperial preferences, but at the expense of other foreign countries. The Bill provides for such negotiation in two ways, firstly by giving the Board of Trade power to lower duties for that purpose, and secondly by giving it power to impose additional duties up to 100 per cent on the products of any country which discriminates against British trade.

These provisions raise an issue of the first importance. All our commercial treaties in the past have been governed by the most-favoured-nation clause which we, and most other nations following our example, have interpreted as meaning that any concessions granted to one nation must be automatically extended to all other nations enjoying most-favoured-nation rights. The underlying idea of the clause was that in this way every specific concession between two nations extended the area of freer trade in every direction. In practice, however, the clause has probably had the contrary effect. Governments are chary of making concessions which they have to extend to all the world, especially when the concessions which they would wish to secure from others in return may possibly be granted to them for nothing as the outcome of somebody else's sacrifice. Moreover the clause, in its present form, is directly contrary to the whole trend of modern economic development towards associated groups. It definitely forbids any closer association of the nations of Europe for mutual economic support, an association which would probably do far more for permanent European peace than will ever be achieved by the League of Nations. But for Mr. Joseph Chamberlain's insistence in 1898 on the denunciation of the German and Belgian treaties it might have been held to forbid inter-Empire preference. It still stands in the way of the establishment of special economic relations between ourselves and countries like Egypt or Iraq, which have specially close

political affiliations with us, or like the Argentine in which we have large economic interests. Until that clause in our treaties is denounced or reinterpreted the provision for granting preferences to foreign countries as the outcome of negotiation will have comparatively little value.

L. S. A.

March, 1932.

P.S. The advisory Committee has now (April) reported, on the lines advocated on p. 14, in favour of a general provisional tariff. The rates fixed are 20 per cent on most finished manufactures; 33⅓ per cent on cycles and some chemicals; 30 per cent on toilet preparations and requisites, fur goods, jewellery, etc.; 25 per cent on leather and imitation leather trunks and bags, guns and cartridges, toys and gymnastic appliances. Tiles, slates, plate and sheet glass, builders' woodwork, rope and twine, agricultural implements and machinery, dressed leather and dressed furs are to pay 15 per cent. The intention is that these rates shall not be varied downwards for at least a year. Certain categories of iron and steel, viz. ingots, blooms, billets, sheet and tinplate bars, sections, forgings, castings, girders, hoops and plates and sheets of all kinds, are to have a 33⅓ per cent duty for at least three months pending the fixing of a permanent scale for the whole iron and steel industry. Other iron and steel products are fixed at 20 per cent except pig iron, which is left at 10 per cent. Tinned and bottled vegetables receive 20 per cent; fruits preserved with chemicals 25 per cent. The duties under the Abnormal Importations Act have been superseded by the above rates.

IMPORT DUTIES ACT, 1932

(Summarised)

PART I

Section 1 provides for the imposition as from March 1, 1932, of a duty of 10 per cent, referred to as 'the general *ad valorem* duty', on all goods imported into the United Kingdom, other than goods already chargeable with a customs duty under some other enactment or specified in the First Schedule of the Act or subsequently added to that Schedule by a Treasury order based upon a recommendation of the Advisory Committee. Such additions can only be made, within the first six months from the passing of the Act, in such cases as seem to the Committee to be of special urgency.

Section 2 provides for the constitution of the 'Import Duties Advisory Committee', subsequently referred to as the Committee, consisting of a chairman and not less than two or more than five other members to be appointed by the Treasury 'for the purpose of giving advice and assistance in connexion with the discharge by the Treasury of their function under this Act'. The members of the Committee are to hold office for three years and be eligible for reappointment. A member can be summarily dismissed by the Treasury if, 'in the opinion of the Treasury, unfit to continue in office or incapable of performing his duties'. The Committee may make rules to govern its own proceedings, including the delegation of any of their functions to a sub-committee consisting of members of the Committee. They may ask for returns or other information and for the attendance of witnesses, on pain of penalties for refusal, and may take evidence on oath either directly or through any person authorised by them.

Section 3 empowers the Committee, where it appears to them that 'an additional duty of customs ought to be charged in respect of goods . . . chargeable with the general *ad valorem* duty, and which, in their opinion, are either articles of luxury

or articles of a kind which are being produced or are likely within a reasonable time to be produced in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption', to recommend to the Treasury an 'additional duty' at such rate as they think suitable. In coming to a decision the Committee shall have regard to the 'advisability in the national interest of restricting imports into the United Kingdom and the interests generally of trade and industry in the United Kingdom, including those of trades and industries which are consumers of goods as well as those of trades and industries which are producers of goods'.

The Treasury may then, if they think fit, and after consultation with the appropriate department, by order direct the imposition of an 'additional duty' not exceeding the rate specified in the Committee's recommendation. Such additional duty may be charged by reference to value or to weight or to any other measure of quantity, for any period or periods, continuous or not, and at different rates for different periods or parts of periods.

The Committee may also make recommendations with regard to goods chargeable with a duty under other Acts where it is apprehended that those duties will shortly lapse, and the goods in question become chargeable with the general *ad valorem* duty, such recommendation not to take effect before the lapsing of the existing duty. This provision enables the Committee to deal with articles subject to the Abnormal Imports Act and to safeguarding duties as they expire.

The Committee may also, subject to the provisions of Schedule II, recommend the allowance of drawback in respect of duties, and may at any time make recommendations for the varying or discontinuance of any additional duties or drawbacks.

Section 4 exempts from the general *ad valorem* duty or additional duties until November 15, 1932, or such later date as the House of Commons may by resolution fix, either generally, or in respect of a particular Dominion, goods consigned from and grown, produced or manufactured in the Dominions (as defined in the Statute of Westminster and including territories

in respect of which they exercise a mandate), India and Southern Rhodesia. At any time after November 1, 1932, the Treasury may, on the recommendation of the Secretary of State, direct, in respect of any of the countries concerned in this section, that the general *ad valorem* duty or any additional duty or both, shall not be chargeable after November 15, or chargeable only at some specified rate less than the full rate. In the absence of such direction goods consigned from any of the countries referred to in this section will be treated as if they were foreign goods.

Section 5 exempts from the general *ad valorem* duty and from any additional duty all goods consigned from and grown, produced or manufactured in any part of His Majesty's Dominions, other than the countries specified in Section 4, or in any protectorate, and this provision may by Order in Council be applied to any territory in respect of which a mandate is exercised by the Government of the United Kingdom.

Section 6 refers to the general conditions, more fully laid down in Schedule III, governing qualification of goods to be considered as of Empire origin and entitled to free or preferential entry.

Section 7 provides for the Treasury, on the recommendation of the Board of Trade, issuing orders for the remission, in whole or part, of the general *ad valorem* or additional duties on any classes of goods coming from specified foreign countries.

Section 8 prescribes that where any composite goods contain an element chargeable to duty under some other enactment, the general *ad valorem* duty should be chargeable only up to the amount, if any, by which it exceeds the duty already chargeable. The Committee may, however, make recommendations in such cases for an additional duty, and in that case the original duty may cease to be chargeable or be chargeable in addition to the additional duty.

Section 9 empowers the Board of Trade to obtain information as to the condition and progress of industries sheltered by this part of the Act, in respect of (*a*) the quantity and value of output; (*b*) the quantity and cost of materials used;

(*c*) the quantity and cost of fuel and electricity consumed;
(*d*) the number of persons employed.

Section 10 ensures that the information supplied for the above purposes shall be treated as confidential.

Section 11 exempts from all duties under this part of the Act goods consigned direct to a registered shipbuilding yard for the building, repairing or refitting of ships in that yard, and allows the sending of goods into such a yard from any other part of the United Kingdom to be treated as export for the purpose of the provisions of this Act relating to drawback.

Part II

Section 12 authorises the Board of Trade, with the concurrence of the Treasury, given after consultation with other Government departments which may be interested, to order the imposition of special penal duties of any extent up to 100 per cent *ad valorem*, over and above any duties which may already be chargeable, on any classes of goods from any country which whether by way of the imposition of duties or the prohibition or restriction of importation seems to it to discriminate against this country, or against the Channel Islands, Colonies, Protectorates or Mandated Territories under the United Kingdom Government.

Part III

Section 13 provides for the free importation of goods imported solely with a view to re-exportation

(*a*) after undergoing a process which will not change the form or character of the goods; or
(*b*) after transit through the United Kingdom or by way of transhipment.

Section 14 provides that where goods which have already paid duty under the Act are reimported after previous exportation, and where no drawback has been allowed on exportation, or such drawback has been refunded, these goods shall

be exempt from duty if they have not been subjected to any process abroad, or if subjected to a process which has not changed their form or character shall only pay such duty as is represented by the additional value attributable to the process.

Section 15 defines the value of imported goods for the purposes of the Act as 'the price which an importer would give for the goods on a purchase in the open market if the goods were delivered to him at the port of importation, freight, insurance, commission and all other costs, charges and expenses incidental to the purchase and delivery at that port (except any duties of customs) having been paid'. In determining the value the Commissioners may have regard not only to the value as declared by the importer, but to all relevant considerations and in particular to (*a*) the price being paid at the same time for similar goods by other importers; failing that to (*b*) the price at which the said goods or similar goods are being freely offered for sale after importation, after allowing for customs duties and reasonable merchanting expenses and profits; or lastly to (*c*) the price of similar goods of United Kingdom manufacture or production, less an allowance for the duty which would have been charged if the goods had been imported, and for merchanting expenses and profits.

Section 16 provides for the settlement of any dispute as to the value of goods by the arbitration of a referee appointed by the Lord Chancellor who shall not be an official of any Government department.

Section 17 authorises the Treasury, after consultation with the appropriate department, to convert an *ad valorem* duty to one chargeable by reference to weight or other measure of quantity where that course appears to offer 'greater advantage and convenience'.

Section 18 provides that in computing the specific equivalent of an *ad valorem* rate regard shall be had either (*a*) to the average value of the class of goods in question during the last half-year, or longer period not exceeding three years, as the appropriate department may determine; or (*b*) in the case of a duty chargeable at different rates for different periods to the

average value in the corresponding periods of the preceding three years.

Section 19 provides that any order made by the Treasury or the Board of Trade under the Act shall be laid before the House of Commons as soon as may be. If an order imposing a customs duty it shall cease to have effect after 28 days (not counting any time during which Parliament is dissolved or prorogued or the House of Commons adjourned for more than four days) unless approved by resolution of the House of Commons. Any other order shall cease to have effect only if annulled by resolution within 28 days from its being laid before the House. Any such order, other than an order under Section 1, may be varied or revoked by a subsequent order, and the Treasury, after consultation with the appropriate department, may revoke or vary orders made on the recommendation of the Committee, without regard to the views of the Committee, as long as the rate of an 'additional duty' is not increased above the rate specified in the original recommendation without a further recommendation. Sections 20, 21 and 22 deal with points of definition or interpretation, with the exercise of the powers of the Board of Trade and with the short title of the Act.

The First Schedule contains the list of goods exempted from the general *ad valorem* duty, viz.,

Gold and silver bullion and coin; platinum in grain, ingot, bar, or powder.

Wheat in grain.

Maize in grain.

Meat, that is to say, beef, veal, mutton, lamb, pork, bacon, ham and edible offals, but not including extracts and essences of meat or meat preserved in any airtight container.

Live quadruped animals.

Fish of British taking, including shell-fish.

Whale oil and whale products shown to the satisfaction of the Commissioners to have been produced or manufactured in floating factories which are British concerns.

Tea.

Cotton (raw) (including unmanufactured cotton waste and unbleached cotton linters).

Flax, and true hemp (*cannabis sativa*) not further dressed after scutching or decorticating; tow of flax and true hemp (*cannabis sativa*).

Cotton seed, rape seed and linseed.

Wool and animal hair (raw), whether cleaned, scoured or carbonised or not; rags of wool not pulled; wool noils; and wool waste not pulled or garnetted.

Hides and skins (including fur skins, but not including goat skins), raw, dried, salted or pickled, but not further treated.

Newspapers, periodicals, printed books and printed music.

Newsprint, that is to say, paper in rolls containing not less than 70 per cent of mechanical wood pulp and of a weight of not less than 20 lbs. or more than 25 lbs. to the ream of 480 sheets of double crown, measuring 30 inches by 20 inches.

Wood pulp and esparto.

Rubber (raw) including crêpe; rubber latex; gutta-percha (raw).

Metallic ores, concentrates and residues; scrap metals and wastes fit only for the recovery of metal.

Iron pyrites, including cupreous pyrites.

Copper unwrought, whether refined or not, in ingots, bars, blocks, slabs, cakes and rods.

Wooden pit-props.

Sulphur.

Mineral phosphates of lime.

Potassium carbonate, chloride and sulphate; kainite and other mineral potassium fertiliser salts.

Cinchona bark.

Coal, coke, and manufactured fuel of which coal or coke is the chief constituent.

Unset precious and semi-precious stones and pearls.

Radium compounds and ores.

Scientific films, that is to say, cinematograph films exemp-

ted under the provisions of Section 8 of the Finance Act, 1928, from the customs duty imposed by Section 3 of the Finance Act, 1925.

Flint unground.

Soya beans.

Cork, raw and granulated, cork shavings and waste.

Ramie, not dressed.

The Second Schedule provides for drawback being allowed, on the recommendation of the Committee, in respect of an additional duty (not in respect of the general *ad valorem* duty). The drawback is only to be allowed on exportation, or shipment as stores, by the importer, or by some person who has taken delivery directly from the importer, in the same state as when imported. It is to be an amount equal to the additional duty proved to have been paid. In coming to a decision as to the recommending of a drawback the Committee are to have regard to the general interests of the industries affected by the additional duty, including the export trade, and to the facilities available for warehousing in bond, etc.

The Third Schedule authorises the Board of Trade to prescribe what proportion of the value of goods claiming Empire treatment must be 'derived from materials grown or produced or from work done within a part of the British Empire'. It also provides for regulations exempting from duty Empire goods only in respect of such proportion of the goods as correspond to the proportion of material used in their manufacture which is shown to be of Empire growth or production.

PRINCIPLES OF AN INDUSTRIAL TARIFF

MEMORANDUM BY THE FEDERATION OF BRITISH INDUSTRIES

Emergency Measures

In the case of the United Kingdom, the most highly industrialised country in the world, not only dependent to an unusual degree upon its export trade, but also by its geographical and economic situation dependent on imported food and raw materials, nothing but a detailed and most carefully adjusted tariff can be of permanent value. The interests of the export trade must be fully considered and the utmost care must be taken to ensure that the incidence of all tariffs imposed shall have the ultimate effect of reducing costs of production. The construction of such a tariff requires skilled investigation, the careful calculation of the circumstances and needs of each industry, and a considerable degree of experiment and subsequent adjustment. This process will take time, and both the conditions of the present day and the necessity of preventing the flooding of the market with imported goods in anticipation of a tariff make it imperative that action of an emergency character should be taken without delay.

It will therefore be necessary for any Government which intends to introduce a tariff system to commence by obtaining powers from Parliament to impose a temporary emergency tariff of a simple character, including the power to impose supplementary duties, or to take such other action as may be necessary, to prevent dumping, within such limits as Parliament may lay down. This temporary tariff should both afford an effective measure of protection to home industries and make provision for a wide extension of preference to imports from other parts of the Empire, so devised as to permit of the widest possible extension of the principle of free entry for the primary produce of the Empire.

In order to secure these objects the Federation would pro-

pose an *ad valorem* tariff in several classes, the rates for each class ranging from free entry for goods in the first class by graded steps to a maximum to be determined for goods placed in the last or highest class, but this maximum must be such as to be effective. In determining the commodities to be assigned to each class (or rate of duty) the guiding principle should be generally that the nearer a commodity is to a completely finished article the higher the rate of duty which it should bear when imported from a foreign country.

Power of Dispensing, Licensing and Revising

The operation of an Emergency Tariff will doubtless disclose certain instances where prompt relaxation or variation of the procedure is essential in order to avoid temporary but serious dislocation or inconvenience to some branch of industry during the period of transition, always bearing in mind that markets once lost may not easily be regained. During the emergency period, therefore, some suitably constituted tribunal or tribunals should be vested with power to hear and decide appeals by any responsible body of traders or other persons directly interested in any particular commodity on the ground that that commodity has been included under either too high or too low a rate of duty; and that British interests are thereby being prejudicially affected; and therefore with power to admit quantities or classes of commodities at an altered rate or free of duty.

Basis of Valuation for *Ad Valorem* Duties

In dealing with *ad valorem* duties, whether in the first or emergency tariff or such as may be imposed as part of a more permanent tariff, a satisfactory basis of valuation is obviously of the greatest importance. The Federation of British Industries have been much impressed by the representations they have received from different industries as to the extremely unsatisfactory character of the present basis of valuation in use under the Safeguarding Duties and McKenna Duties. The present basis of declared values permits goods to be invoiced

at prices substantially below these at which they would be quoted if there were no duty, and frequently actually below those ruling in the country of origin. This is possible either by quoting special rates for exports to the British market, or by restricting exports to selected importers or concessionaires to whom the goods are invoiced at special rates. They have had before them the different bases of valuation adopted by the principal tariff countries of the world, which exhibit a very striking variety of method. After careful consideration they suggest that the basis of valuation which would be best adapted to the circumstances of this country is the following:

1. Invoice value with a certificate from the exporter attached, declaring that this value, after allowing for freight and insurance, represented not less than the factory selling price for resale in the country of origin.

Note.—The factory selling price of imported merchandise shall be the domestic market value or the price at the time of exportation of such merchandise to the United Kingdom, at which such or similar merchandise is freely offered for sale to all purchasers in the principal markets of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade, including the cost of all containers and coverings of whatever nature, and all other costs, charges and expenses incident to placing the merchandise in condition packed ready for shipment to the United Kingdom.

2. In the event of failure to produce the certificate in question, or if the Customs Authorities shall not be satisfied with the certificate, it shall be within the power of the Customs Authorities to assess the value on which duty shall be payable, and this value shall have due regard to the factory selling price for resale in this country of goods similar in kind and quantity produced in this country.

THE PERMANENT TARIFF

The Tariff Board

Character of Board.

For the construction of a permanent tariff a Tariff Board should be set up of a permanent and executive character. It should be composed of men of the highest standing and ability, and should include members with commercial and technical knowledge and administrative experience in the important industries of the country. The members should be required to devote their whole time to their duties and to relinquish any commercial or other interests which might in any degree impair their complete impartiality. They should be removed as far as is humanly possible from political influence by the terms and character of their appointment. In general, their position and freedom from external influence should approximate as closely as possible to that of His Majesty's Judges.

Duties of Board.

Their principal duty should be to investigate the requirements of industry, preserving a due balance between industry and industry, and between the interests of industry and of the country as a whole, and on this basis to construct a full and detailed tariff, which would provide fully effective protection for British Industry.

In considering the framing of the tariff the Board should have regard to the following considerations:

(*a*) The level of duties necessary to enable British industry to provide the greatest possible amount of employment, and by this increased production to cheapen prices, and thus not only benefit the home consumer but assist in the expansion of the export trade. These rates of duty may well be higher than those contained in the Emergency Tariff.

(*b*) The necessity of ensuring that where a duty is placed upon the importation of any commodity which is the raw material of any industry, the interests of such an industry are

fully considered, and a due balance struck by the Board between the interests of the industries either as producers or consumers.

(c) The need in the interests of the great exporting industries for elasticity in the tariff to enable treaties to be concluded with other countries on terms favourable to the British export trade.

Procedure of Board when Constructing Tariff.

Sub-Committee and Industrial and Commercial Panel.

The Tariff Board should consider the appointment of separate sub-committees to deal with separate industries and groups of industries. For this purpose a panel of persons with industrial, commercial, technical, and financial experience should be appointed, and the sub-committees should be composed of one member of the Board, sitting with two or more members of the panel, unconnected with the industry under consideration, assisted by technical assessors. These sub-committees, if appointed, would conduct the actual detailed investigations into each group of industries, receive evidence from the trades concerned and other interests, and report to the full Board, which should finally determine the classification, rates of duty, and other matters relevant to the products of each industry or group of allied industries. It should also be within the power of the sub-committees to recommend, instead of the imposition of duties, the regulation of imports by systems of quota, prohibition and licence. In reaching these decisions the Board would duly co-ordinate them with decisions arrived at in respect of other industries, and would consider their application to the wider interests of the country as a whole, to the necessities of the general economic position, and to any treaty or other international or inter-Imperial obligation which may be binding upon the country. The Board should also have power, as in the case of the Emergency Tariff, to impose supplementary duties, or to take such other action as may be necessary, to prevent dumping, within such limits as Parliament may lay down.

Legislative Procedure for Bringing Permanent Tariff into Effect

As the tariff is completed for each large group of commodities, it should be brought into effect step by step superseding the relevant portions of the Emergency Tariff. The procedure for effecting the necessary legislation is a matter for constitutional and Parliamentary experts rather than industrialists, but the experience of other countries has shown that discussion of the details of a tariff by Parliament is in the highest degree undesirable.

Types of Duty in a Permanent Tariff.

For the purpose of a permanent tariff the Federation of British Industries consider that *ad valorem* duties will prove best in the case of some classes of goods, specific in other, and in many cases a combination of specific and *ad valorem* will be required. Broadly speaking, *ad valorem* duties have the advantage that they automatically adjust themselves to price fluctuations. On the other hand they are less easy to administer than specific duties and facilitate Customs fraud by dishonest importers. In respect of the products of many industries, however, it appears that a combination of *ad valorem* and specific duties will be required.

To take the case, for example, of an industry which meets with three forms of competition from abroad:

(*a*) high-class goods of special character competing with domestic products mainly in style and design. In these products prices are a secondary consideration;

(*b*) medium and lower classes of goods almost identical with British products of similar quality and competing on the basis of price only;

(*c*) low-quality goods, lower than those normally made in this country, which are cheap and attractive solely because of their low price, which is rendered possible by reason of exceptionally low conversion costs in the country of origin.

It is obvious that an *ad valorem* duty designed to put British and foreign goods on a price level in Great Britain in the first of these three groups would have little effect on their import, because fashion plays so large a part in the market. Almost any duty levied on these goods would be merely revenue producing. If the *ad valorem* duty were designed to put British producers and their competitors on a level in group (*b*) difficulties would arise owing to the wide range of conversion costs in various countries. With an *ad valorem* duty intended to place British producers on level terms with those of a foreign country with average conversion costs, the imports from a country with lower than average costs would scarcely be affected. In regard to group (*c*) the effective protection of the home market would require such high *ad valorem* duties that they would amount to prohibition on goods in group (*b*) and would be a luxury tax on goods in group (*a*).

In order to meet these difficulties a combination of *ad valorem* and specific duties would be required: *ad valorem* duties to maintain a proper adjustment between the duties leviable on goods in various stages of production and to maintain an even progression of duty on goods of varying value at any given stage of production; specific duties to equalise the competition with low-class goods produced under low conversion-cost conditions, and to carry forward any specific duty imposed on materials imported at an earlier stage of production.

It would be necessary in many cases to work out a somewhat elaborate scale of duties, as unless the duties are carefully graded it might prove possible to import goods at one stage and work them up to the next in this country, underselling the home product which was of British manufacture at every stage. In all cases, of course, where a specific duty has been imposed at any stage of production, an equivalent duty allowing for wastage of material, etc., in the course of manufacture must be imposed on the product at subsequent stages.

Duties of Tariff Board after Construction of Original Tariff.

The tariff of a modern industrial State can never be regarded as a final, complete and perfect instrument capable of retaining its efficiency without alteration. If it is to avoid becoming either unduly burdensome on the one hand or ineffective on the other, it must be subject to review and periodical amendment and readjustment in detail. Alterations in economic conditions at home or abroad, variations in the importance and quantities required of particular classes of commodities, due to alteration in demand or the discovery of new processes, the development of the economic and commercial policy of the country and of commercial treaties involving mutual concessions, necessitate variation in the tariff from time to time.

In order, however, to be of any real assistance to industry a tariff generally must be of a permanent character. Substantial changes in the incidence and rates of duty should be made as seldom as possible. Any uncertainty in this respect will prevent industry from adopting a long-range policy of production and sales organisation. For the same reason inter-Imperial trade agreements and commercial treaties should be binding for prolonged periods.

Revision of Tariff to Prevent its becoming a Shelter for Inefficiency.

Internal competition and, in the case of the exporting industries, international competition in the export markets of the world may in general be relied upon to maintain efficiency of production and a reasonable level of prices. Indeed, the tariff should, by promoting an increased volume of production, be the means of reducing prices. Such increased output and cheapened production is one of the fundamental objects of the tariff, and should be constantly in the mind of the Tariff Board in its deliberations. It should therefore be open to any responsible body of traders or of other persons directly interested as users or consumers of any commodity to appeal to the Tariff Board on the ground that the producers and/or sellers

of the commodity are abusing the protection afforded them by maintaining an undue and unreasonable price or by a neglect to maintain quality or quantity. Conversely, it should be open to any representative and responsible body of manufacturers or producers to appeal to the Board for the increase of any duty or duties on the ground that the existing duties are inadequate. Although provision must be made for the possibility of such revision, it is important to avoid the blow which would be struck at industrial confidence by frequent revision, on a substantial scale, of the level of duties.

The Tariff and Export Markets

The Federation has up to this point considered the tariff chiefly as a method of protecting the home market. It has, however, an important bearing upon the export trades in connection both with an extension of inter-Imperial trade and with the negotiation of commercial treaties with foreign countries.

Inter-Imperial Trade.

The Federation regards the furtherance of inter-Imperial trade and the development of the resources of the Empire as an immediate and vital economic necessity. For the widest possible extension of inter-Imperial trade the United Kingdom must be prepared to impose, when necessary, such duties in favour of the products of the Empire, including foodstuffs and raw materials, as will enable it to grant preferential treatment to the Dominions to the degree necessary to secure the widest possible development of inter-Empire trade, and to permit of the conclusion of mutually advantageous agreements with the different units of the Empire. Alternatively, and subject also to the same principle of mutual advantage, in the case of commodities in which a system of quota or of quota combined with duties may provide a suitable means of extending inter-Empire trade, the United Kingdom must be prepared to adopt such a plan. It is suggested that if this system is to reach its maximum efficiency, economic condi-

tions in the Empire require continuous study, and machinery should be devised to achieve this, either by means of an Imperial Economic Board and Secretariat, or in some similar way.

AGRICULTURE.

British agriculture provides an important and essential outlet for the products of British Industry, and the Federation is prepared to support any reasonable plan for safeguarding British agricultural interests. In particular it commends the general scheme outlined in the report of the Joint Committee on Agricultural Policy, which was considered and accepted, subject to certain detailed reservations, by the Grand Council of the Federation on October 14, 1931.

COMMERCIAL TREATIES

The last decade has seen an enormous growth in the number and importance of commercial treaties of the bilateral type based on mutual concessions. This has been necessitated by the formidable growth in the range, height of duties, and complexity of tariffs. Moreover, there has been a constant whittling away of the advantages conferred by plain most-favoured-nation treatment by a multitude of ingenious devices for preventing the concessions granted to one country from being automatically extended to others. In the case of the more highly protected countries, reasonable access to the markets may soon become impossible, except as a result of a commercial treaty. The importance of such agreements is so great to an exporting country such as the United Kingdom that the Federation attaches the greatest possible importance to a tariff as a bargaining weapon.

PART TWO

A TARIFF POLICY FOR AGRICULTURE

PART TWO

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A TARIFF POLICY FOR AGRICULTURE

FOREWORD

IN THE long controversy which began with Mr. Joseph Chamberlain's historic speech of May 15, 1903, British agriculture has only very gradually come to be regarded in its proper aspect as an integral part of a reorganised national economic life. Mr. Chamberlain launched his campaign on the issue of Imperial Preference from a point of view which postulated duties on foreign foodstuffs, not for the sake of our own agriculture, but as a measure of assistance to the Empire, to be reciprocated by corresponding measures of assistance to our industry. To this was very soon added a direct campaign for protecting British industry in its own home market, as well as for securing advantages for it in the Empire market. In either case the main appeal was to industry, and while it is true that in the course of his campaign he was led to consider the interests of home agriculture to the extent of accepting the view that it should, on certain products, enjoy a small measure of protection even against the Empire, yet the campaign was mainly conceived of from the point of view of the Empire and of industry. It is significant that when Mr. Bonar Law was persuaded to drop 'food taxes' from the Conservative programme in 1912 the reaction of his decision upon the agricultural problem passed almost without notice.

The War taught us a lesson on the danger of neglecting agriculture which we proceeded to forget at once. The emergency legislation aimed at stimulating production from the land was promptly repealed, and no alternative policy took its place. The Conservative De-rating Act, it is true, gave some assistance, but quite inadequate to the scale of the

was paralysed by the political bogy of 'food taxes'. The first to break the spell was Lord Beaverbrook, who not only robbed the bogy of its terror by an advocacy of 'food taxes' which treated them as intrinsic blessings, but preached 'Empire Free Trade' as essentially also a policy of effective protection —even if shared with the Dominions—for British agriculture.

With the growth of protectionist sentiment in the last two years has come, with increasing definiteness, a complete change of outlook. British agriculture is no longer regarded as a derelict industry to which something must be conceded, if that can be done without political inconvenience or injury to more important interests. Its position as a neglected, but indispensable element in the economic life of the nation is now universally recognised. The urban voter has at last grasped the fact that agriculture is not a rival interest to industry but a complementary factor, an essential element in steadiness of employment. Meanwhile agriculture itself, driven into the last ditch by the fall in world prices, aggravated by such extra scourges as Russian dumping, has at last turned and is fighting for its rights in a spirit hitherto unknown. Finally, the breakdown of the gold standard has forced us, as a nation, to realise that our whole standard of living is dependent on the balance of trade, and that the best insurance against famine prices in respect of the foodstuffs which we must import are effective duties to reduce the imports of those foodstuffs, as well as those manufactures, which we can produce ourselves. All these influences have combined to make the protection of agriculture an urgent necessity, not only in fact but, what matters no less, in the mind of the public and of the House of Commons.

It was in anticipation of this development that some of us felt it desirable, more than a year ago, to see to what extent it might be possible to work out a fiscal policy for agriculture which could both fit in as an integral part of the general framework of the tariff system of the future, and commend itself alike to the representatives of industry and to those of agriculture. In the end a Joint Committee was set up on behalf of both Agricultural and Industrial interests over whose de-

liberations I had the privilege of presiding during six months of strenuous discussion. The outcome was the present Report, which was subsequently accepted both by the Central Chamber of Agriculture and by the Federation of British Industries, in the latter case with a qualification on the part of the milling industry with regard to the proposed wheat-quota scheme, with regard to which I might say a word.

Whatever misgivings the millers may have entertained with regard to the working of the quota scheme outlined in this report, they were nothing as compared to the alarm created by the scheme advocated in the Ministry of Agriculture under the late Government and first put forward by their successors. In the end, after protracted negotiations, agreement was arrived at on a new scheme, closely corresponding in many essential respects to the one which we had worked out, except in so far as the decision of the Government to provide no Treasury subsidy towards the guaranteed price will now involve the raising of the amount required by the millers themselves, and its subsequent passing on to the consumer. No inconsiderable portion of our recommendations in other respects, apart from wheat, have been in effect carried out, or initiated, by recent legislation.

It is essential to keep in mind that this Report is only concerned with outlining a tariff policy for agriculture. The regeneration of British agriculture will call for a great deal more than tariffs before it is accomplished. An immense and sustained effort is required in which appropriate legislation must, no doubt, play its part, but in which even more will have to depend upon the best brains of the country being turned into its most important and potentially profitable business. But a reasonable tariff system is the starting-point without which the work of reorganisation cannot even begin. Let us get the foundations laid without delay, and then we shall lose no time in raising the superstructure.

L. S. A.

March, 1932.

REPORT

ON

AGRICULTURAL POLICY

A TARIFF POLICY FOR AGRICULTURE

A Joint Conference was held on January 14, 1931, between agricultural representatives, meeting under the auspices of the Central Chamber of Agriculture, and representatives of the Research Committee of the Empire Economic Union, with a view to considering the framing of an agricultural policy which should be acceptable to both agricultural and industrial interests. The representatives of the Empire Economic Union were acting on behalf of the Committee on Fiscal Policy of the Federation of British Industries, of the National Union of Manufacturers, and of other industrial and economic organisations. It was decided to set up a Joint Committee to investigate and report on the whole question.

The following were appointed members of the Joint Committee:

The Rt. Hon. L. S. AMERY, M.P.
The LORD CRANWORTH.
Mr. W. HILL FORSTER.
Sir HERBERT MATTHEWS.
Sir BENJAMIN MORGAN.
The Rt. Hon. THE EARL OF RADNOR.
Colonel E. A. RUGGLES-BRISE, M.P.
Mr. J. O. STEED.
Mr. H. G. WILLIAMS.

Lieut.-Colonel Wyndham R. Portal, representing the National Council of Industry and Commerce, was subsequently co-opted a member of the Committee.

Mr. W. Hill Forster of the Central Chamber of Agriculture and Mr. Herbert G. Williams of the Empire Economic Union were appointed Joint Secretaries.

The Committee held its first meeting on January 26, 1931, and elected the Rt. Hon. L. S. Amery as Chairman. Fourteen meetings were held by the Committee and the following Report embodies the conclusions arrived at.

Any economic policy which is based, not upon immediate individual interest, but upon the conception of national co-operation, and which aims at establishing a proper balance between the various elements in production, and at the correlation of production with consumption, must naturally include, as a principal object, the maintenance of a successful agriculture and of a prosperous agricultural population.

To secure that balance adequately it must include within its purview a wider field than the United Kingdom alone can offer. Only over the field of the whole Empire can industry and agriculture be efficiently rationalised under modern conditions of production. But that does not mean that we should not aim at securing as good a balance as we can within the United Kingdom. The same reasons—valid reasons—which make every Dominion desire to foster its own manufacturing industry, so far as its local conditions permit, and to bring in the products of British industry to supplement, and not to displace its own, apply in our case to agriculture. Our own home agriculture must be our first care, and the object of any policy of Imperial preference must be, not to supplant our own farming, but to make good the natural limitations in the volume and range of its production.

At the time of the latest Agricultural Census of Production, *i.e.* 1925, the value of the produce of British farms was no less than £286,000,000. The bulk of this output was exchanged for the products of our manufacturing industries, and was, accordingly, the largest individual item contributing to urban employment. The whole of this production, and the whole of the population dependent upon it, are more gravely threatened by world economic conditions than ever before in our history. Since 1925 the quantity and value of our agricultural production have fallen heavily. In consequence nearly 100,000 men have been driven from the farms to the towns, while the

purchasing power of the agricultural community has been gravely curtailed.

The importance of agricultural Britain to British industry arises not only from the intrinsic importance of the market afforded by a population which—if our country towns and all the local industries and professions directly dependent on agriculture are included—is larger than that of any Dominion except Canada, but also by the fact that automatically the British agriculturalist, as a consumer, comes under whatever tariff is imposed in this country, and to that extent has to give the maximum possible preference to British industry. Any increase in its prosperity is reflected most rapidly and most completely in the purchase of our own manufactures.

Conversely, no Oversea Dominion depends so entirely upon the market of industrial Britain as does agricultural Britain. It is for the representatives of agricultural Britain to remember that every measure which contributes to the prosperity of industrial Britain enriches their best, indeed, their only market, and that it is in their interest to take the broadest view, both of our industrial tariff here at home, and of any concessions given to Dominion agriculture in return for preferences to our manufactures.

Turning from these general considerations to certain more concrete aspects of our agricultural problem, that problem would seem to fall into three main parts. The division is a rough one, and there is naturally a certain amount of overlapping between the different categories. In the first place, there are certain crops which are of such importance on account of the part they play in the whole economy of the farm and of the countryside, and, indeed, in our national security, that it is essential to maintain them at a certain minimum standard of production. The typical instance of this class is wheat, though the other cereals and sugar beet, which play so large a part as a pivotal and stabilising factor in Continental agriculture, would also appear largely to fall within it. In this category, and more particularly in regard to wheat, the general policy would be to decide approximately the extent to which we desire cultivation in this country to be main-

tained, and to adjust our methods to that end, even if those methods go beyond the generally more convenient and flexible method of a Customs duty. A cessation of cereal production in this country, with which we are now threatened, would not only increase unemployment, but also would place the cost of our food supply in the hands of other countries and deprive this country of control over its cost of living.

The second category of agricultural production covers those crops in respect of which this country can produce, either for the whole year's consumption or for our own season of production, the whole of our needs, at a reasonable price, but where the dumping of surplus produce from the Continent may completely disorganise the market with disastrous consequences to the home grower and, as a rule, without any corresponding advantage to the consumer. Potatoes are a typical instance in this class, which includes most fresh vegetables, soft and berry fruits and such a commodity as fresh cream. The obvious and simple remedy in this class seems to us, in the first instance, a duty, whether permanent or seasonal, which will encourage our own production and diminish the incentive to foreign importation.

Owing to the fact that for the moment this country is debarred by the International Convention for the Abolition of Import and Export Prohibitions from regulating imports by means of prohibition, no recommendations have been made which visualise the use of the method of prohibition. At the same time, it is felt very strongly that, in the case of certain seasonal products, experience may show that it might be better to use the method of prohibition if and when this country is able to resume its freedom in that respect. That method may have to be adopted, in any event, and apart from any general conclusions as to the policy of prohibitions, in dealing with dumping from Russia.

Last, but not least, there is a very wide and most important range of products which we can produce successfully in this country and at reasonable prices, but not in quantities sufficient to ensure that our whole demand is met at such prices unless supplemented from outside sources. This is the natural

field for calling in the agriculture of the Empire to make good the limitations imposed by Nature on our total acreage. It covers cereals, in so far as they are not covered by special measures, meat of all kinds, poultry, every kind of dairy produce, apples and pears, etc. In their case, the extent of the help we should be justified in giving must depend, in large measure, upon a consideration both of the extent of available and potential Empire supplies and of the total *quid pro quo* in the shape of an increased market for our manufactures which we could secure in the Empire as well as at home.

How far as regards any of these articles we should act immediately on our own initiative without waiting for negotiation with the Dominions, or to what extent and for how long assistance to our own agriculture in respect of them can be held up pending a Dominion Conference, is obviously a matter on which discretion must be left to the Government of the day to do what is best for the country as a whole. In many instances the advantages given in return might justify a more substantial measure of protection against the foreigner, and, on the other hand, a greater measure of preference to the Empire producer, than would otherwise be contemplated. There is, moreover, for agricultural as well as for industrial Britain, and no less for the Dominions, a great advantage in any definite arrangement which stabilises the measure of preference or protection enjoyed for a period of years, and puts it outside the fluctuations of local politics.

Flexibility of Tariff.

In view of the variation of the volume of certain of the crops in respect of which in general an import duty is desirable, we feel that it is necessary to have a degree of flexibility in connection with import duties on agricultural products greater than that which in the ordinary way would be suitable in the case of industrial products.

We presume that in connection with an industrial tariff there will be set up a Tariff Board or Commission of a judicial or semi-judicial character. Associated with such a Board, we regard it as essential to establish a permanent advisory body with special knowledge of agricultural production. The duties of such a body would include those of advising the Govern-

ment of the day as to the temporary suspension or reduction of duties in the event of crop shortages, and also as to the dates for the operation of seasonal duties where weather conditions or other circumstances may call for different dates being fixed in different years. The Advisory Body, on its own initiative, should be entitled to make representations of any kind with regard to the regulations of imports to the Tariff Commission or to the Minister.

Manufactured Food Products

The protection offered to agricultural produce in the raw state should naturally be extended to the industries which are concerned in bottling, canning or otherwise preserving or preparing the home-grown product. The importance of these industries to the farmer, both in increasing the total demand for his crop and in providing a steady local market, is obvious. The appropriate rate of duty is one which can only be definitely fixed with a knowledge of the manufacturing conditions in each case, and in drawing attention, under the various categories, to the manufactured commodities connected with them, we have, in the main, confined ourselves to placing on record our opinion that the protection of these commodities should not be overlooked in any tariff, and have only in certain cases made specific suggestions.

SPECIAL CROPS

Wheat.

The case of wheat, so far at least as our home production is concerned, is not one which can be met by any duty that it would be justifiable to impose. We consider that it can only be dealt with adequately by a system combining a quota and a guaranteed price.

A scheme upon which we unanimously agreed, as offering the best method of administering such a policy, is appended to this report in the form of draft heads of a Bill (Appendix I[1]). Its main features are that the minimum quantity of home-

[1] In view of the introduction of the Government Wheat Bill the details of our scheme no longer have any general interest, and I have substituted for them a brief summary of the Government measure as introduced.—L. S. A.

grown wheat of milling quality to be converted into flour in the United Kingdom shall be fixed annually by the President of the Board of Trade at a convenient date, the quantity prescribed being slightly less than the amount estimated to become available. The carrying out of the scheme should, if possible, be based on agreements entered into by the President of the Board of Trade with the Milling Trade Association or individual mill owners or groups of mill owners. In default of agreement, the President of the Board of Trade should have power to prohibit the production of flour, except subject to a licence embodying such conditions as will ensure effect being given to the scheme.

The guaranteed price to be paid by millers for home-grown wheat of good average milling quality, whether taken under the quota or in addition to it, would be similarly prescribed, the millers receiving a refund from the Treasury, based on the difference between the guaranteed price and a world price for home-grown wheat calculated on the basis of the relative prices of home-grown and foreign wheat of comparable quality over a period of five years.

Though we have not incorporated it in our scheme, we feel that careful consideration should be given to the question whether the guaranteed price should not be graduated, *i.e.* raised progressively after the harvest, so as to encourage the keeping of a considerable proportion of the home crop in the stack and ensuring a more even supply to the mills.

In issuing any orders or rules under the Act embodying the scheme, the President of the Board of Trade should act in consultation with a Wheat Advisory Council, including representatives of the National Farmers' Union, the Milling Trade Association, the National Association of Corn Merchants, as well as independent members. This council should also deal with appeals against the terms of a licence, but disagreements between millers and wheat-growers as to the quality of wheat offered should be referred to a somewhat similarly composed Milling Wheat County Tribunal to be set up in each wheat-growing county.

We contemplate that a reasonably high duty on foreign

flour, *e.g.* 33⅓ per cent *ad valorem*, with free Empire entry up to a maximum total to be agreed upon, would normally be sufficient to prevent the scheme being interfered with by excessive importation of flour, but we consider that the President of the Board of Trade should have power to prohibit or, if treaty obligations prevent this course, to impose higher rates of duty on either foreign or all flour.

The machinery set up for the administration of a quota system for home-grown wheat might also lend itself to the adoption of a quota system—though without any guarantee of price—for Empire wheat. We have not considered it as falling within the scope of our inquiry to investigate the relative advantages, from our own point of view or from that of the Dominions concerned, of a quota scheme, as against a preferential duty, as a method of applying the principle of Imperial Preference with regard to wheat.

Barley.

In considering the treatment of barley, we have studied the Report of the Treasury Committee which in 1923 reported on a scheme for a duty on imported malting barley. In addition, members of the Committee have consulted the various interests, including members of the Brewing industry.

We have considered other methods for dealing with malting barley besides import duties, but cannot recommend them.

Any scheme based on levying an excise duty at the malting house on imported foreign barley would conflict with certain of our trade treaties. The denunciation of these treaties would, apart from other disadvantages to British trade, deprive British exporters of the protection enjoyed by them in foreign countries against further discrimination by excise duties over and above existing tariffs, and could not be recommended.

The very great number of grades of malting barley, and the fact that the proportion of the British crop which is suitable for malting varies substantially from season to season, would make any quota system much more difficult to administer than in the case of wheat.

Without a quota system it would be impossible to put into effect any scheme for a minimum price for home-grown malt-

ing barley to be paid for by the brewers and distillers. Such a scheme would, in any case, meet with strong opposition from the interests concerned, while, on the other hand, any proposal for transferring the financial burden of the minimum price to the Treasury would be no less strongly criticised on general grounds of public economy.

A system of declaration as to the ultimate destination of imported barley, involving the granting and subsequent following up of certificates issued in this connection, also appears to us calculated to involve undue complications for the Customs House officials and for all concerned. It would obviously be far more convenient if the distinction between malting and feeding barley could be made for good and all by some rough and ready test at the port of entry. Such a test, we are informed, could be provided by certain cheap methods of staining, or by kibbling (*i.e.* crushing), which do not injure barley for feeding purposes, though rendering it unsuitable, or at least identifiable, if used for malting.

In the case of barley, as in the case of the other commodities that we are considering later in this report, we abstain from recommending precise rates of duty, because obviously what duties will prove to be appropriate must depend upon the circumstances which prevail at the time that such duties are proposed to Parliament.

At the present time, when many cereals are being sold by all the principal producing countries at prices which, in fact, are below the cost of production, it is evident that the rates required to deal with the present situation would be much higher than those designed to give the turn on the market when selling prices are satisfactorily related to the cost of production.

After careful enquiry into all the circumstances we feel that any duty ought to be extended to feeding barley, but definitely at a much lower rate than that on barley which is used for malting. Accordingly, we recommend a small duty on stained or kibbled (*i.e.* crushed) barley from foreign countries, with free admission for stained or kibbled Empire barley, while for all other foreign barley—which would be the

barley used for malting—we would suggest a very much higher rate on imports from foreign countries with a preference of one-third of the duty in favour of Empire countries.

We consider that under a scheme of this kind, which left duty free all home-grown and all Empire feeding barley, and which imposed a relatively small rate on all foreign barley, the bulk of the foreign feeding barley would be excluded without any material effect on the prices paid by the consumers of feeding barley.

Oats.

Oats and barley differ from wheat in that the bulk of our supplies are produced in this country, whereas in respect of wheat we are dependent as to more than five-sixths of our supplies on imports from abroad.

In the case of barley there has been a steady shrinkage in demand, due to the reduced consumption of beer and whisky, while in the case of oats the reduction in the demand arises from the supersession of horse-drawn traffic by motor-drawn traffic.

Of the total oats available, including imports, two-thirds are consumed on farms, but there is no precise information as to the extent to which oats are sold by one farm to another. The remaining third is consumed by town horses or used in the manufacture of oatmeal and other oat products. In the last year or so, the growers of oats have suffered owing to bounty-fed competition from certain Continental countries, with the consequence that prices have been forced much below a remunerative level.

Should the dumping of bounty-fed oats continue, it would be necessary to deal with the situation either by prohibition, if we were free from Treaty obligations in the matter, or by effective countervailing duties; but, so far as normal competition is concerned, we believe that a duty on foreign oats at a rate lower than that which would be suitable for malting barley, and with a free importation of Empire oats, would deal adequately with ordinary competition without any serious prejudice to any consumers of oats.

Manufactured Cereal Products.

In view of the large importation of manufactured cereal products, such as rolled oats, pearled barley, shredded wheat

and other manufactured breakfast cereals, all of which could be made in this country from home-produced cereals, it is obviously desirable that these manufactured products should be dutiable. In the case of pearled barley we are informed that the whole of the pearled barley required in this country can be produced here, and that a moderate duty per cwt. would be sufficient to be effective. Appropriate import duties should correspondingly be applied to biscuits, malt and malt preparations, yeast and other manufactured cereal products normally, or conveniently, made in this country.

While the commercial production of maize is impossible in the United Kingdom, nevertheless, from the ordinary manufacturing point of view, it would seem desirable that maize products which can be made in this country from imported maize should be so produced, and, though the agriculturalist is the principal user of such maize products, it would nevertheless seem to be only equitable that the agricultural community should support the milling and allied industries in this connection. This situation could be met adequately by a small duty on foreign maize products, with free entry for Empire maize products.

Beet Sugar. The present beet-sugar subsidy, which comes to an end in September, 1934, was introduced when the general policy of the country was one of Free Trade. We consider that the industry could be more conveniently and simply assisted by a direct protective duty which should replace the subsidy at the earliest convenient opportunity. The change should be such as to leave substantially unchanged the net revenue to the Exchequer, that is to say, the present revenue from import and excise duties, less the amount of the sugar subsidy. In order to achieve this result, and at the same time to protect effectively the beet-sugar industry in this country, we recommend: (1) That the rate of duty on imported foreign sugar over 98 per cent polarity should be raised by 2s. 4d. per cwt. above the present level, with appropriate adjustments in the rate of duty on foreign sugar at lower scales of polarisation; and such adjustments, if any, in the rate of duty on sugar above 99 per cent as will leave the position of the refining in-

dustry unaffected; (2) That the rates of duty on sugar of all classes imported from Empire countries should be maintained at the present level; (3) That home-grown sugar should be free of excise,[1] the subsidy being correspondingly reduced, and, if conditions should warrant, dispensed with altogether.

VEGETABLES, FRUIT AND MILK

Potatoes. The outstanding feature of the potato situation is the fact that this country is normally capable of producing more than all its requirements in respect of main-crop potatoes, but that the interests of British potato-growers are very often seriously prejudiced by the dumping of Continental main-crop potatoes, without any corresponding advantage accruing to the retail purchaser. On the other hand, there is a considerable import of early potatoes. This is largely a luxury trade, as is evident from the fact that the average value per ton of our potato imports is at least twice the price of the British main crop. A careful consideration of the whole situation leads us to the conclusion that a single duty at a definitely high rate would act both as an anti-dumping duty on the main crop, without affecting prices to the consumer, and as a luxury duty, purely such at the very beginning of the season, and subsequently protective, first to the Channel Islands and then to our own growers, on early potatoes.

We accordingly recommend a flat rate of duty per ton on all imported potatoes, with free entry from Empire countries, provision to be made that, in the event of a potato shortage or any undue enhancement of price, it should be possible for the duty to be suspended for such a period as the Minister may deem to be desirable after consultation with the appropriate Advisory body.

Tomatoes. A study of the production and importation of tomatoes

[1] Complete freedom from excise would, however, be objected to by the Sugar Refining Industry, which considers that this would give too great an inducement to refining at the beet-sugar factory and who would, no doubt, press for the retention of a minimum excise duty sufficient to secure their position in this respect.—L. S. A.

shows clearly that, during certain months in the year, we must be dependent, at least for the present, on tomatoes imported from abroad, and in particular from the Canary Islands.

On the other hand, during the season, when British tomatoes are produced in large quantities, it would appear that the production in the United Kingdom, reinforced by that of the Channel Islands, would be sufficient to meet all home requirements. We accordingly recommend that during the appropriate period, which is approximately from the beginning of June to the end of October, foreign tomatoes should be liable to a moderate import duty per cwt., with free admission for Empire tomatoes. We believe such an arrangement would greatly help British production without any material reaction on the retail price to the public.

Onions.

In view of the relatively small British production, especially of the type of onion most largely imported, we cannot at the moment recommend an import duty on onions. In view, however, of the possibilities of large production in the Bermudas and other Empire countries, the case may require reconsideration in its Imperial aspect.

Miscellaneous Vegetables.

In our Trade Returns there is shown a very large importation of other fresh vegetables, that is to say, of vegetables other than potatoes, tomatoes and onions.

Unfortunately, the Customs Authorities are without information as to the quantities of the various vegetables which are imported grouped together under this general heading, but an examination of the Dutch and French Trade Returns indicate that they consist mainly of the following:

Artichokes,
Asparagus,
Cabbages,
Cauliflowers,
Fresh Cucumbers,
Lettuces,
Fresh Peas and Beans.

Without detailed information as to the quantities and average prices of these imports, it is a matter of great difficulty to

suggest the appropriate specific duties which would afford reasonable protection to British production without any materially adverse effect on prices to the consumer. The bulk of the importation of these vegetables is a luxury importation, as most of our consumption at ordinary times is supplied from home sources. This luxury importation reaches us some weeks before our early products are available and, therefore, the only really high prices paid for these vegetables are paid to foreigners. Accordingly, as a provisional step, it is suggested that all goods classified as 'Other Fresh Vegetables' should be liable to a substantial *ad valorem* duty with a view to conversion to specific rates when sufficient knowledge and experience of the provisional duty have been obtained.

Hops.

We are of the opinion that for the present the existing rate of duty on imported hops should be maintained at the present level.

Cut Flowers and Bulbs.

It is evident that both for flowers grown in the open and under glass this country could be made self-supporting to a far greater extent than it is at the present time. The great variety and range of value of cut flowers and bulbs make it, however, a matter of some difficulty, with the present classification of imports, to draw up completely satisfactory suggestions for dealing with these imports.

We understand that many of the cut flowers and bulbs imported are consigned for sale by auction and, accordingly, *ad valorem* duties would present certain difficulties, and it is felt desirable that the duties should be specific. In the case of flowers, for administrative convenience, the specific duty should be per lb., gross weight, including packing.

Plums.

Though there is in most years a substantial importation of plums, our main source of supply is our home production, and there appears to be no reason why we should not be substantially self-supporting, except during the winter months, when supplies are available to a considerable and increasing extent from the Union of South Africa. This is a situation which can conveniently be met by a specific duty on foreign plums, with free entry for Empire produce.

Cherries.

Somewhat similar considerations apply to cherries as to

plums, though the proportion of home production is smaller than in the case of plums, and there is very little importation from Empire countries.

Strawberries, Raspberries, Gooseberries and Currants. Our home production of strawberries, raspberries and currants can easily be developed to cover all our requirements, both for fresh fruit and for preserving, and we recommend a specific duty on these, and on similar soft berry fruits. In this connection, however, and, indeed, in connection with all this section of our report, we would again draw attention to the importance of leaving to the responsible Minister, appropriately advised, a wide discretion as to the suspension or reduction of duties, either seasonally or in times of shortage.

Fruit Pulp. The problem of fruit pulp cannot be separated from that of whole fruit. Broadly speaking, fruit pulp consists of strawberries, raspberries, gooseberries and currants, with the addition of water and to some extent, apparently, of various adulterants. Owing to the fact that fruit pulp is not classified in any appropriate manner, it would seem that, initially, fruit pulp should be treated on the same basis as whole fruit. An examination of the import statistics relating to strawberries, raspberries, gooseberries and currants has led the Committee to believe that, initially, all these fruits should be treated alike, with a uniform duty at the same rate as that which may be imposed on the fresh fruit referred to in the previous paragraph.

It is recommended that the same rate of duty should be applied to all unsweetened fruit pulp, irrespective of its composition, though it is possible that after experience it will be found necessary to modify this duty.

Any fruit pulp which may come in in a sweetened form would, of course, be liable to the usual duty on the sugar content in addition to the specific duty.

Dried Fruits. Though there are the beginnings of a dried-fruit industry in the United Kingdom, it was felt that the developments so far are not sufficient to justify the imposition of any import duty at the present time, apart from any extension of the present dried-fruit duties as may be agreed upon as the result of inter-Imperial negotiations.

In our recommendations for duties on vegetables, flowers and fruits, we have specially kept in view not only the quantitative possibilities of increased output, but the enormous importance of this particular type of production to the smallholder. **Importance to Smallholders.**

A logical consequence, it need hardly be added, of the above proposals would be corresponding duties on imported preserved, canned or bottled fruits and vegetables, jams, pickles and other manufactured foods of this class. The appropriate rates would, of course, depend largely on manufacturing considerations, and the question of the rate of preference would be affected by inter-Imperial negotiation, as well as by consideration of the volume of the home supply. In such a case, for instance, as tomatoes, the home supply is not likely to provide any substantial surplus for canning, and the question of a duty would have to be considered almost entirely from the Imperial point of view. **Preserved Fruits and Vegetables.**

The fresh-milk industry is one of the first importance and capable of considerable extension. This, however, is a matter outside the purview of a purely fiscal policy, in regard to which fresh milk at present enjoys an effective natural protection. If any large import should develop, consideration would have to be given, not only to the possibility of a duty being imposed, but also to the need for regulations providing that the hygienic conditions under which the milk is produced abroad and transported to this country should not fall below the British standard. **Milk.**

There is, however, a substantial importation of cream, not only from the Irish Free State, our main source of supply, but also from certain European countries, and the total importation is equal to approximately a quarter of the production in the United Kingdom. It is evident that with any assistance from an import duty the United Kingdom could become completely self-supporting in the matter of cream, and we recommend a specific duty on foreign cream with, provisionally, a preference of 33⅓ per cent on Empire cream. **Cream.**

Our investigations into the condensed-milk situation revealed the fact that at the present time there is available **Condensed Milk and Milk Powder.**

sufficient productive power in this country to supply all our needs of condensed full-cream milk, and that with a moderate specific duty effective protection would be given to the home producers against the imports from foreign countries.

There is a material importation from New Zealand, in view of which we recommend that there should be an initial preference of 33⅓ per cent in favour of Empire-produced condensed milk, with a recognition of the probability that this preference may be further increased as the result of inter-Imperial negotiation.

At the moment this country is not producing large quantities of sweetened condensed skimmed or separated milk. The importation of this class of milk is felt by many to be undesirable from the health point of view, and, as a matter of fact, at the present time, under the regulations of the Ministry of Health, such milk may only be sold if marked as not fit for babies. While consideration of the question as to whether the restrictions on health grounds should not be made more stringent is outside the scope of our functions, we think it desirable that attention should be drawn to this aspect of the question. Some doubt was felt as to what rate of duty would be adequate to safeguard the production of such milk in this country, having regard to the fact that this form of condensed milk is essentially the by-product of continental butter-making, and owing to the fact that, as this is practically the only available market, it can be offered for sale here at abnormally low prices. Taking all facts into consideration, we concluded that an initial duty per cwt., the same as that imposed on full-cream condensed milk, should be applied to condensed skimmed or separated milk, again with a preference of at least 33⅓ per cent in favour of the Empire product.

In respect of milk powder a duty, somewhat higher per cwt. than that on condensed milk, with an initial Empire preference of 33⅓ per cent, is recommended.

HOME AND IMPERIAL AGRICULTURE

There remains the large class of products in respect of which the relative importance of Empire to home sources of supply is such that, on the whole, they can best be dealt with as part of such inter-Imperial negotiations or discussions as are likely to take place. We have already, tentatively and provisionally, dealt with the Imperial Preference aspect of our various proposals up to date. In this section we shall, in the main, confine ourselves to noting proposals for Imperial Preference which have already been suggested, and commenting on them, in so far as they bear on our home situation.

The Empire Economic Union, in its Preliminary General Report, submitted a number of drafts of suggested Trade Agreements with the Dominions, and in these drafts their recommendations were made for precise rates of duty on certain foodstuffs.

The rates of duties there proposed were those likely to give an effective preference to certain Empire foodstuffs over foreign foodstuffs, and, in general, we believe that those rates of duty will at the same time be of substantial advantage to British agriculture. When the time comes for the negotiation of trade agreements with the Dominions, we feel that it is important, in fixing the rates of duty, that consideration should be given not only to the circumstances prevailing in the Dominions, but also to the conditions prevailing in British agriculture.

The question of our meat supply is clearly one in which the **Meat.** Empire side is of considerable importance. Our examination of the subject leads to the conclusion that, from the point of view of United Kingdom agriculture, a small duty on all foreign imported meat, with free entry for Empire meat, would be of advantage to British agriculture. In the case of frozen pork, we consider that the duty should be higher than on ordinary meat, and that a similar duty on fresh pork would have to be imposed in the interest of home producers if at any time the present embargo on the import of fresh pork from European countries should be lifted.

Bacon and Ham. The pig industry offers exceptional scope for expansion, and steps should be taken at once in consultation with the industry to place it upon a sound practical basis. We do not feel that an immediate duty on bacon or ham could be advocated solely in the interests of British agriculture in view of the inadequacy of present supplies and equipment. If such a duty were proposed in the course of negotiations for Imperial trade, we should support it as likely to give a stimulus to British pig-breeding, a branch of agriculture in which production can be increased with great rapidity.

Lard. The case for a duty on foreign lard is not, on present information, a strong one even from the Imperial point of view. It has, however, been suggested to us that there is a possibility of a considerable increase of the Canadian supply. In any case we would recommend a small duty per lb. on imitation lard which can largely be supplied from home resources.

Poultry and Game In recent years the poultry industry in this country has made very rapid progress, and the head of poultry on agricultural holdings has increased by about 50 per cent in the last ten years. There is, nevertheless, a very large importation to the value of over £3 millions a year, but with the progressive condition of the British poultry industry it is evident that the bulk of this importation is unnecessary, and we recommend a small duty per lb. on all imported poultry, with a preference of 33⅓ per cent in favour of Empire poultry, subject to further negotiation.

Eggs. Our domestic egg supply, on the other hand, is still very far below our requirements. We believe that a small duty on foreign eggs, with free Empire entry, would have a very notable effect in increasing egg production in the United Kingdom.

Butter and Cheese. In butter and cheese again our home supplies are limited, and their expansion is affected by the extent of the home demand for fresh milk and cream. We would, however, welcome any duty imposed for Imperial reasons on foreign butter and cheese with free Empire entry, as calculated to be of assistance to the home producer.

Apples and Pears. In respect of apples, this country, together with Canada, could undoubtedly make itself independent of the United

States, our present main source of importation, for the whole of the northern season, while Australia, New Zealand and South Africa could meet our requirements for the remainder of the year. In respect of pears, our own home production is somewhat less, but could be increased. Here, again, the Empire supply, more particularly from Canada, Australia and South Africa, could eventually, we think, fill up most of the present gap.

The Imperial Economic Conference of 1923 recommended a small duty on raw apples of foreign origin with free Empire entry. We support this proposal, but we think that it should apply also to pears. The case of cider apples may require separate consideration. There will be no difficulty in discrimination, as cider apples are almost invariably imported either loose or in sacks, whereas other apples are imported in barrels or cases.

Monetary Policy.

With reference to Monetary Policy, in view of the fact that the Report of the Macmillan Committee has not been published, this question has been regarded as outside the implied terms of reference of this Committee, but it must not be inferred, from the omission of any reference to the subject in this report, that the Committee do not recognise its great importance. It would seem obvious that expansion of production must depend upon an adequate and proportionate supply of credit and currency.

We feel that no review of the agricultural situation or suggestions to meet the needs thereof would be complete without some reference to the pressing need for improved organisation in the marketing of home-grown produce.

We have in the main concentrated our attention upon suggestions for the regulation of imports, because we believe this to be the essential step, and that without such regulation it would be sheer waste of time, effort and money to attempt any elaborate marketing organisation of home products.

Organised Marketing.

The National Council of Agriculture have produced valuable Reports upon Organised Marketing, and during recent years the action taken, often under the direction of the Marketing Department of the Ministry of Agriculture, to improve

the marketing of fruit, vegetables, eggs, and poultry, clearly indicates the value of organisation. In the case of milk especially, this is needed.

How Agricultural Workers are affected.

The restoration of prosperity to agriculture is just as important to the labourers as to the farmers. The position has now been reached that the present wage rate, under existing circumstances, is higher than that which the farmer can pay economically. Under the existing law he cannot reduce the wage rates, and, therefore, there is forced upon him the necessity of discharging some of his labourers. This process has been going on for some years and is now taking place at an increasing rate, with the result that these loyal and capable workers, whose output is the food of our people, are being driven into unemployment, while the food they should be producing is being imported from overseas.

It is our urgent hope, therefore, that the agricultural workers will realise their interest in supporting the policy we advocate, not only to maintain their present security of employment and standard of living, but because, when once the balance has been restored between costs and prices, the labourers must undoubtedly receive their share of any further advance in agricultural prosperity.

Conclusion.

We would wish, in conclusion, to draw attention to the fact that the first statements of industrial organisations in support of an agricultural policy were contained in a declaration by the Federation of British Industries in their statement 'Industry and the Nation', by the National Union of Manufacturers in their Annual Report for 1930, and by the National Council of Industry and Commerce in their 'Case for Agriculture'. Our appointment and the work we have so far done represent similarly the first attempt to arrive at the details of a mutually acceptable policy. These efforts to reconcile and harmonise interests which have in the past been regarded as divergent, if not hostile, indicate a far-reaching change in political opinion which may yet profoundly affect our whole national organisation.

■

APPENDIX ONE

PROVISIONS OF THE WHEAT BILL, 1932

The object of the Bill, as set out in the explanatory memorandum, is 'to provide wheat-growers in the United Kingdom with a secure market and an enhanced price for home-grown wheat of millable quality, without a subsidy from the Exchequer and without encouraging the extension of wheat cultivation to land unsuitable for the crop'. The benefits of the Bill are to be available to farmers in respect of the 1932 harvest and subsequently.

The enhanced price is secured to the grower by means of 'deficiency payments' calculated on the difference between a 'standard price' of 10s. per cwt. (equivalent to 45s. per quarter of 504 lbs.) and the 'ascertained average market price' for the cereal year (August 1 to July 31) prescribed by the Minister after consultation with the Wheat Commission. The grower who secures a better price than the average will consequently be actually paid more than 45s. a quarter and *vice versa*. The free market with every inducement to the grower to secure the best possible price, whether by the quality of his crop or by his skill in marketing, is thus preserved. The grower is free to sell to millers, merchants or poultry farmers; the destination of the wheat is immaterial so long as it is of millable quality.

The exact amount due to growers in respect of their deficiency payments will not be ascertained until the end of the cereal year, but it is contemplated that the Wheat Commission should make payments in advance on account of deficiency payments, leaving only the final balance for subsequent settlement. The farmer will thus be able to secure, on the sale of his crop, both the market price and a substantial instalment of his deficiency payments.

In order to limit the expenditure under the scheme, and to prevent the growing of wheat on unsuitable land, the full deficiency payment will only be made in respect of a total

'anticipated supply' for the cereal year prescribed by the Minister at the beginning of the year, but subject to revision up to January. This anticipated supply must not in any event exceed 27 million cwt. (6 million qrs.).

This total, according to the Ministry of Agriculture's calculations, would represent, after deduction for seed and wheat not millable, approximately 85 per cent of the average wheat crop on 1,800,000 acres, an increase of 550,000 acres on this year's wheat acreage. There is, of course, no actual limitation of output. Only if the quantity sold during the year exceeds the anticipated supply the deficiency payments will be proportionately reduced.

The standard price is to be subject to reconsideration as from August 1, 1935, by a special committee of three who will have regard to 'general economic conditions and the conditions affecting the agricultural industry'. There is, at present at any rate, no provision for a similar reconsideration of the maximum anticipated supply.

What is usually implied by a 'quota', *i.e.* the obligation of the millers to buy up to a certain fixed proportion of the total consumption of wheat, has, in the Government scheme, been reduced to a contingent obligation on the part of the millers, through a Flour Millers' Corporation, to buy up such part of the home-grown crop as may be unsold by June, up to a maximum of 12½ per cent of the anticipated supply. The order prescribing this purchase will fix a price based on an estimate of what would be the price as between willing buyer and willing seller for wheat of fair average quality for the area to which the order applies and at the date when it comes in force.

The basis of the scheme is really not a physical but a financial 'quota', the 'deficiency payments' being provided by 'quota payments' made to the Wheat Commission by every miller or importer of flour in respect of each hundredweight delivered by him or entered for home consumption as the case may be. These payments are calculated on the total amount required to provide the deficiency payments spread over the total volume of flour milled or imported. The miller's financial liability is the same as if he had been compelled to use in his

grist his fixed proportional share of the 'anticipated supply' of British wheat, but he remains, in fact, free to give to his flour any physical composition that suits him. Nor is there anything to prevent British wheat, to whatever extent its suitability may dictate, being absorbed in biscuit-making or poultry-feeding rather than in the production of bread.

The machinery of the scheme centres in a Wheat Commission composed, as the Bill stands at present, of a chairman, vice-chairman, and twelve other persons appointed by the Minister. Of these, four are to represent the growers, three the millers, one the flour importers, two the dealers in home-grown wheat, and two the consumers. The Commission, besides being the general advisory body to the Minister on all questions arising under the scheme, is charged with its administration, with the issuing of regulations, and, in particular, with the establishment of a Wheat Fund, into which all 'quota payments' are made by millers and importers, and out of which the 'deficiency payments' are made to growers. The general administrative expenses of the Commission will fall on the fund and involve a slight deduction from what would otherwise have been the full deficiency payments.

The original Ministry of Agriculture scheme was based on its administration by a Board set up under the Agricultural Marketing Act, 1931. A provision in the Bill enabling any of the functions of the Wheat Commission to be transferred to such a Board, if it should ever happen to be established, is of historical rather than of practical interest.

The other main element in the machinery is the Flour Millers' Corporation, a body constituted for the purpose of buying and disposing of the balance of the crop on such occasions as may be necessary. The Corporation is to consist, in the first instance, of a chairman and four other members appointed by the Minister, but is subsequently to be elected by all millers registered as members of the Corporation. The Corporation is to distribute among all millers (registered or not), in proportion to their output for the year, such profits or losses as may arise from its purchase and subsequent disposal of the balance of the crop.

It will be seen that the cost of the scheme is borne by the millers and flour importers, and will, to that extent, be an addition to the wholesale cost of flour and, ultimately, to the cost of the loaf. The Ministry of Agriculture have calculated that if the Wheat Bill had been in operation in 1931 the average quota payment would have been 2s. 1d. per 280 lb. sack of flour, and that this would have increased the price of the 2 lb. loaf by $\frac{1}{4}$d. during 11 weeks of the year and left it unaffected during the remaining 41 weeks. Sir J. Gilmour's calculation for the next harvest is that the quota payment will be equivalent to about 2s. 6d. per sack, corresponding to an average increase of $\frac{1}{8}$d. per 2 lb. loaf. Broadly speaking, this addition to the price of bread will be more when wheat, and consequently bread, is cheap, and less as the price of wheat rises, disappearing altogether when the market price reaches the standard price of 45s. a quarter.

APPENDIX TWO

STATISTICS

The commodities appear in the statistical tables below in the same order as in the body of the Report. They have been brought up to date to cover the year 1930.

The United Kingdom has produced in recent years an average of 20 per cent of its own requirements in wheat. The imports have been drawn to the extent of rather more than half from foreign countries, the balance from Empire countries. **Wheat.**

The combined exportable surplus of wheat from Empire countries other than India has not in any one of recent years been less than twice the total import requirements of the United Kingdom, and in some years has been considerably more. Although India is a large exporter of wheat at certain times, the figures for that country have not been included in this estimate owing to the large domestic consumption and, therefore, the smaller margin for annual crop variation.

Wheat Acreage in Great Britain

	Acres
1920	1,929,011
1925	1,548,245
1929	1,380,939
1930	1,400,077

Wheat production in 1929	26,580,000 cwts.
,, ,, 1930	22,540,000 ,,
Yield per acre in 1929	19·2 cwts.
,, ,, 1930	16·1 ,,
,, ,, for average of 10 years, 1920-1929	17·8 ,,

Imports in 1930

FROM	CWTS.	VALUE
United States of America	21,035,743	£9,126,985
Russia	18,717,260	5,751,955
Argentine	15,188,752	6,788,152
British India	3,341,551	1,391,356
Australia	12,712,993	5,645,775
Canada	26,178,553	11,370,653
Other Countries	7,599,886	2,989,287
	104,774,738	£43,064,163

Average value per cwt. of all imported wheat, 8s. 2d.

11,728,234 cwts. of *wheat meal and flour* were also imported, mainly from Canada and the United States of America; total value, £6,646,207.

Barley.

Acreage under Barley in Great Britain

	ACRES
1920	1,841,590
1925	1,470,730
1929	1,220,830
1930	1,126,800

The acreage in 1930 was the smallest since the War.

Production and Imports

Production (Great Britain) 1929	21,980,000 cwts.
,, ,, 1930	16,640,000 ,,
Imports (1930)—	
From foreign countries	14,634,000 cwts.
,, British ,,	574,000 ,,
	15,208,000 ,,

The imports of barley from foreign countries in 1930 were considerably higher than in the previous year, the principal source of the increase being Russia. Imports from British countries fell to one-third of the import in 1929.

Sources of Imports, 1930

FOREIGN COUNTRIES		BRITISH COUNTRIES	
U.S.A.	£1,524,448	Canada	£111,557
Soviet Union	1,297,580	Australia	29,576
Roumania	538,827	Palestine	25,962
Chile	234,310	Irish Free State	7,077
Czechoslovakia	224,882	British India	6,728
Denmark	180,370	Other British countries	8,107
Iraq	129,954		£189,007
Persia	80,292		
Syria	28,653		
Morocco	28,478		
Germany	26,850		
Algeria	22,986		
Netherlands	22,148		
Turkey, Asiatic	20,819		
Other foreign countries	44,208		
	£4,404,805		

Oats.

Acreage under Oats in Great Britain

	ACRES
1920	3,303,901
1925	2,794,171
1930	2,640,309

Production and Imports

Production (Great Britain) 1929	45,540,000 cwts.
,, ,, 1930	39,760,000 ,,
Imports (1930)—	
From foreign countries	9,042,000 cwts.
,, British ,,	589,000 ,,
Total imports	9,631,000 ,,

The import of foreign oats in 1930 was greater by over 3½ million cwts. than the import in 1929. The principal increases were from Russia, Germany and the Argentine. The

value, however, of all imports of oats was less, being £2,409,000 in 1930 and £2,748,000 in 1929.

If seed requirements are estimated at about 9 per cent of the home crop, or about 3,580,000 cwts. in 1930, the total supplies from home sources available for other purposes in 1930 were 36,180,000 cwts., and the total from all sources 45,800,000 cwts.

Home supplies have been about 84 per cent of the total supplies in recent years, as compared with 72 per cent before the War. In 1930, however, the home percentage was somewhat below the average, at 79 per cent. The decline in the total quantity of oats used is probably accounted for by the drop in the number of horses used for transport.

About two-thirds of all the oats available, including imports, is consumed on farms. The remaining third is fed to town horses and used in the manufacturing of oatmeal and other oat products. The output of oatmeal and other manufactured oats was 2,840,000 cwts. in 1924. The imports of oat products (not included in the imports of oats above) were 596,000 cwts. in 1930, of which 274,000 cwts. were from Canada.

Wheat Products. This heading includes macaroni, shredded wheat, semolina, but does not include wheat flour and meal.

Imports in 1930

FROM	CWTS.	VALUE
France	79,900	£97,500
Italy	41,000	55,000
Belgium	17,400	10,900
United States of America	15,900	23,500
Holland	10,700	5,800
Other foreign countries	21,200	17,400
Canada	16,900	21,200
Other British countries	3,100	3,600
	206,100	£234,900

Oat products include oatmeal, groats, and rolled oats. **Oat Products.**

Imports in 1930

FROM	CWTS.	VALUE
Germany - - - - - -	253,700	£144,500
United States of America - -	42,100	33,000
Other foreign countries - - -	6,700	3,900
Canada - - - - - -	274,100	421,100
Irish Free State - - - -	18,500	11,900
Other British countries - - -	800	400
	595,900	£614,800

This does not include malt, but is composed mainly of pearled barley. **Barley Products.**

Imports in 1930

FROM	CWTS.	VALUE
Germany - - - - - -	117,000	£64,000
Holland - - - - - -	28,500	18,600
Other foreign countries - - -	15,600	5,300
Canada - - - - - -	1,200	400
Other British countries - - -	3,300	1,000
	165,600	£89,300

Imports in 1930 **Biscuits.**

FROM	CWTS.	VALUE
Sweden - - - - - -	23,400	£86,400
Holland - - - - - -	600	3,200
United States of America - -	700	2,900
Other foreign countries - - -	2,200	8,100
Irish Free State - - - -	34,100	126,300
Other British countries - - -	100	600
	61,100	£227,500

These are biscuits without any dutiable sugar ingredients.

There are no figures available of the import, if any, of biscuits containing sugar or sweetening matter. Such figures

would be included under the Customs heading of 'Other food preparations containing sugar'.

Malt.

Imports in 1930

FROM	CWTS.	VALUE
United States of America - -	13,200	£11,300
Czechoslovakia - - - -	12,200	11,900
Other foreign countries - - -	500	500
Irish Free State - - - -	16,700	15,200
	42,600	£38,900

There are no separate statistics of the import of malt preparations.

Maize flour and Meal.

Imports in 1930

FROM	CWTS	VALUE
United States of America -	231,000	£144,200
Belgium - - - -	229,800	121,600
France - - - - -	126,600	35,700
Holland - - - - -	94,500	55,800
Argentine - - - -	22,200	5,000
Other foreign countries - -	97,700	34,500
Union of South Africa - -	1,883,000	572,600
Irish Free State - - -	48,800	19,400
Southern Rhodesia - - -	33,700	10,800
Other British countries - -	3,100	1,600
	2,770,400	£1,001,200

Yeast.

Imports in 1930

FROM	CWTS.	VALUE
Holland - - - - - -	114,100	£365,800
Belgium - - - - - -	49,100	115,100
Germany - - - - - -	59,900	114,100
Other foreign countries, mainly France - - - - - -	24,200	56,700
Irish Free State - - - - -	300	800
Other British countries - - -	—	300
	247,600	£652,800

SUGAR IMPORTS AND EXPORTS

Sugar.

Imports of Refined Sugar. (In thousand cwts.)

FROM	1924	1925	1926	1927	1928	1929	1930
Foreign countries	11,347	12,947	12,533	8,253	4,299	1,114	1,178
British countries	558	2,306	1,446	1,121	128	1	2
Total -	11,905	15,253	13,979	9,374	4,427	1,115	1,180
Deduct re-exports	113	43	54	74	196	48	78
Total retained	11,792	15,210	13,925	9,300	4,231	1,067	1,102

Exports of Refined Sugar. (In thousand cwts.)

	1924	1925	1926	1927	1928	1929	1930
Total -	1,447	1,318	1,551	1,693	1,495	3,333	5,581

(A large part of the export goes to British countries, especially the Irish Free State.)

Imports of Molasses and Invert Sugar. (In thousand cwts.)

FROM	1924	1925	1926	1927	1928	1929	1930
Foreign countries -	3,106	3,709	2,816	2,507	3,926	3,241	4,904
British countries -	299	603	286	391	446	1,081	787
Total -	3,405	4,312	3,102	2,898	4,372	4,322	5,691
Deduct re-exports	57	10	46	7	87	221	14
Total retained -	3,348	4,302	3,056	2,891	4,285	4,101	5,677

Exports of Molasses and Invert Sugar. (In thousand cwts.)

	1924	1925	1926	1927	1928	1929	1930
Total -	591	660	687	746	1,287	1,468	1,297

(Mainly to foreign countries.)

Imports of Glucose. (In thousand cwts.)

	1924	1925	1926	1927	1928	1929	1930
Total -	1,027	854	809	641	656	646	564

(Mainly imported from the United States of America.)

The re-exports are negligible, and the exports of British produce are small.

Imports of Unrefined Sugar. (In thousand cwts.)

FROM	1924	1925	1926	1927	1928	1929	1930
BEET All from foreign countries -	1,887	353	552	243	1,248	2,272	2,131
CANE							
Foreign countries	16,059	20,019	10,532	15,045	21,881	24,609	24,159
British countries	5,244	6,677	10,239	8,250	11,053	14,060	10,865
Total -	21,303	26,696	20,771	23,295	32,934	38,669	35,024

Production of Beet Sugar in the U.K.

SEASON	ACRES	PRODUCTION OF SUGAR
		CWTS.
1924-25 - - - - - -	22,441	478,308
1925-26 - - - - - -	54,750	1,032,759
1926-27 - - - - - -	125,814	3,003,933
1927-28 - - - - - -	222,566	3,651,620
1928-29 - - - - - -	175,734	3,874,664
1929-30 - - - - - -	229,918	5,800,000
1930-31 - - - - - -	348,000	8,480,000

Potatoes.

Monthly Imports of Potatoes

	QUANTITIES 1,000 cwts.			VALUE (in 000's)			AVERAGE VALUE £ per ton								
	1928	1929	1930	1928	1929	1930	1928			1929			1930		
				£	£	£	£	s.	d.	£	s.	d.	£	s.	d.
Jan.	215	61	36	52	20	11	4	16	0	6	11	0	6	1	0
Feb.	195	54	27	66	18	11	6	16	0	6	14	0	8	4	0
Mar.	543	136	80	175	58	85	6	9	0	8	10	0	21	4	0
Apr.	1,447	185	163	576	147	147	7	19	0	15	18	0	18	0	0
May	1,816	868	974	1,258	786	748	13	16	0	17	16	0	15	6	0
June	3,580	2,279	2,438	2,227	1,443	1,117	12	9	0	12	14	0	9	3	0
July	1,177	1,571	987	398	536	306	6	8	0	6	8	0	6	2	0
Aug.	321	332	204	99	82	59	6	2	0	4	9	0	5	8	0
Sept.	75	138	66	23	34	18	6	1	0	4	9	0	5	4	0
Oct.	28	87	272	8	18	67	5	7	0	4	1	0	4	9	0
Nov.	69	93	245	18	19	53	5	2	0	4	9	0	4	3	0
Dec.	56	64	297	15	15	60	5	3	0	4	7	0	4	0	0
Total	9,522	5,868	5,789	£4,915	£3,172	£2,682	£10	3	0	£10	8	0	£9	3	0

Tomatoes.

Imports in 1930

FROM	CWTS.	VALUE
Canary Islands - - -	1,394,000	£1,936,300
Holland - - - - - -	665,100	961,200
Spain - - - - - -	88,500	62,600
France - - - - - -	27,500	34,900
Other foreign countries - -	12,900	18,700
Channel Islands - - -	863,200	1,530,000
Other British countries - -	1,500	1,500
	3,052,700	£4,545,200

Monthly Variation in Imports in 1930

	CWTS.
January - - - - -	143,000
February - - - - -	131,000
March - - - - -	184,000
April - - - - -	230,000
May - - - - -	366,000
June - - - - -	362,000
July - - - - -	364,000
August - - - - -	367,000
September - - - - -	345,000
October - - - - -	285,000
November - - - - -	133,000
December - - - - -	140,000

Tomatoes.— *Continued.*

The average price of the imports from the Canary Islands was 28s. 10d. per cwt., or 3s. 1d. per 12 lbs.

The monthly average prices of British tomatoes of first quality ranged from 31s. 6d. per 12 lbs. in April 1930, to 4s. 3d. in September. At the same dates, first quality Channel Island tomatoes averaged 28s. and 3s. 2d. per 12 lbs. In April, first-quality Canary Island tomatoes averaged 5s. 3d. per 12 lbs., dropping to their lowest price of 4s. in June.

Onions.

Imports in 1930

FROM	BUSHELS	VALUE
Spain - - - - -	5,127,000	£824,600
Egypt - - - - -	1,657,000	273,700
Holland - - - - -	3,247,000	373,300
France - - - - -	434,000	65,200
Germany - - - -	218,000	37,400
Other foreign countries - -	88,000	14,900
British countries - - -	13,000	1,800
	10,784,000	£1,590,900

Monthly Variation in Imports in 1930

	BUSHELS
January - - - -	1,099,000
February - - - -	985,000
March - - - - -	834,000
April - - - - -	798,000
May - - - - -	771,000
June - - - - -	506,000
July - - - - -	500,000
August - - - -	1,069,000
September - - - -	796,000
October - - - -	1,288,000
November - - - -	1,054,000
December - - - -	1,087,000
	10,787,000

Onions.—*Continued.*

Average Seasonal Prices

English,	1st quality - - - - -	6s. 2d. per cwt.
	2nd „ - - - - -	4s. 11d. „
Valencia,	1st quality - - - - -	9s. 0d. per 120 lb. case
	2nd „ - - - - -	7s. 4d. „ „
Dutch,	1st quality - - - - -	4s. 9d. per cwt.
	2nd „ - - - - -	4s. 2d. „
Egyptian,	1st quality - - - - -	8s. 1d. per cwt.
	2nd „ - - - - -	7s. 0d. „

Other Vegetables.

The total imports of vegetables 'not elsewhere specified' shown in the Customs Returns were valued at £1,713,136 in 1930. Subdivision of these figures is not possible from the Customs Returns, but as the total was made up almost entirely by imports from France and Holland, the following extracts from the Trade Returns of those countries provide the necessary information:

FRANCE

Exports to the United Kingdom of certain Vegetables for the year 1928. (Last figures available)

	CWTS.	AVERAGE VALUE PER CWT.	
		S.	D.
Artichokes - - - - - -	2,600	23	0
Asparagus - - - - - -	33,800	59	0
Cauliflowers - - - - - -	204,300	11	1
Haricot Beans - - - - -	2,600	24	10
Lettuce - - - - - -	57,000	21	7
Tomatoes - - - - - -	56,300	18	5
Green Peas - - - - - -	47,300	26	0
'General', including Onions - -	237,800	14	0

Above are estimated net weights.

The above values have been estimated from the Returns shown by the French Customs Authorities at the ports of shipment. In order that an estimate of landed cost may be made, information on sea freight has been obtained as follows:

Other Vegetables.— *Continued.*

From all French Channel ports to Southampton Docks Quay.

Tomatoes - - - -	2s. 6d. to 3s. per cwt., according to packing.
Onions - - - - -	1s. 3d. per cwt.
Cucumbers and Lettuces -	2s. 3d. ,,
Asparagus - - - -	4s. 0d. ,,
Most of the other items -	2s. 0d. ,,

HOLLAND

	CWTS.	VALUE	AVERAGE VALUE PER CWT. s.	d.
Green Peas - - -	462,400	£451,768	19	6
Tomatoes - - -	798,400	635,859	16	0
Onions and Shallots -	1,376,900	406,040	5	10
Lettuce, etc. - -	132,400	146,480	22	10
Carrots - - -	391,300	81,370	4	2
Potatoes - - -	351,800	57,194	3	3
Fresh Cucumbers -	44,300	33,608	15	0
Cauliflower - - -	—	30,663	—	
Red Cabbage - -	—	11,140	—	
Savoy Cabbage - -	—	1,824	—	
Brown and White Beans	—	3,000	—	

Where weights are stated, the figures are *gross*, including crates or other packing.

Above values are f.o.b. Dutch port of shipment.

Hops.

Imported hops are dutiable at the rate of £4 per cwt., with a preference of 33⅓ per cent of the duty on hops from British countries.

The duty was imposed following the discontinuance of the control of hops, under which hop-growers had been compelled, between 1917 and 1925, to curtail their acreage under hops by a half. The control involved the prohibition of imports of hops, except under licence.

The import duty was substituted for control in 1925, and was continued for a further period of four years in the Finance Act of 1929.

Hops.—*Continued.*

Net Imports and Exports, 1925-1930

	IMPORTS		EXPORTS	
	CWTS.		CWTS.	
1925 - -	90,000	£696,000	45,000	£468,000
1926 - -	35,000	293,000	79,000	635,000
1927 - -	97,000	796,000	55,000	406,000
1928 - -	66,000	475,000	18,000	178,000
1929 - -	62,000	328,000	13,000	135,000
1930 - -	45,000	226,000	22,000	64,000

Imports (gross), 1930

FROM	CWTS.	VALUE
United States of America - -	28,400	£146,200
Czechoslovakia - - - -	6,600	26,200
Germany - - - - -	4,400	30,000
Belgium - - - - -	2,000	6,700
Yugoslavia - - - - -	3,000	10,000
Other foreign countries - - -	1,400	4,900
Canada - - - - -	2,700	13,700
Other British countries - - -	400	2,100
	48,900	£239,800

Home Production of Hops

	ACREAGE	CWTS.
1900 - - - - - -	51,000	348,000
1914 - - - - - -	34,000	507,000
1919 - - - - - -	16,700	189,000
1925 - - - - - -	26,300	355,000
1929 - - - - - -	24,000	359,000
1930 - - - - - -	20,000	253,000

There are also duties on hop preparations, and on hop oil, but the import is very small. A small countervailing duty of 10d. per standard barrel is imposed on imported beer.

Fresh Flowers.

Imports in 1930

FROM	
Holland	£358,300
France	247,200
Other foreign countries	4,100
Channel Islands	148,600
Other British countries	7,000
	£765,200

Production in England and Wales (1925)

Flowers grown in the open	£400,000
Flowers grown under glass:	
Chrysanthemums	200,000
Roses	250,000
Carnations	85,000
Other flowers (including bedding and decorative plants)	815,000
	£1,750,000

Bulbs, Flowering Plants.

Imports in 1930

BULBS AND ROOTS

FROM	
Holland	£1,532,000
Japan	77,000
France	37,000
Germany	13,000
Other foreign countries	26,000
Channel Islands	16,000
Irish Free State	5,000
Other British countries	10,000
	£1,716,000

PLANTS

FROM	
Holland	£273,000
Belgium	72,000
France	19,000
Germany	29,000
Other foreign countries	10,000
Irish Free State	15,000
Other British countries	4,000
	£422,000

Plums.

		cwts.
Home crop, 1928		937,000
,,	1929	1,215,500
,,	1930	2,427,000
Imports, 1928		480,000
,,	1929	505,000
,,	1930	389,000

Average Value per Cwt. of Home Crop in 1930

	s.	d.
River's Early Prolific Variety, 1st quality	14	3
Egg Variety, 1st quality	7	2

Imports in 1930

From	Cwts.	Average value per cwt. s.	d.
France	150,000	38	0
Belgium	26,000	27	7
Germany	5,000	32	0
Italy	66,000	33	2
Spain	54,000	47	7
United States of America	37,000	40	0
British Empire (mainly South Africa)	34,000	76	10
Other countries	18,000	—	
	390,000	40	8

Monthly Variations in Imports in 1930

	cwts
January	15,000
February	7,000
March	6,000
April	—
May	—
June	21,000
July	163,000
August	141,000
September	13,000
October	22,000
November	1,000
December	—

Cherries.

	CWTS.
Home crop, 1928 - - - - -	209,000
,, 1929 - - - - -	296,000
,, 1930 - - - - -	405,000
Imports, 1928 - - - - -	80,000
,, 1929 - - - - -	143,000
,, 1930 - - - - -	60,000

Average Value per Cwt. of Home Crop in 1930

	S.	D.
Black, 1st quality - - - - -	62	6
White, ,, - - - - -	58	0

Imports in 1930

FROM	CWTS.	AVERAGE VALUE PER CWT. S.	D.
Belgium - - - - -	31,000	36	0
France - - - - - -	17,000	69	0
Holland - - - - -	7,000	33	5
Other countries - - - -	5,000	—	
	60,000	44	0

Small Fruit.

	STRAW-BERRIES	RASP-BERRIES	GOOSE-BERRIES	CURRANTS
	CWTS.	CWTS.	CWTS.	CWTS.
Home crop, 1928 -	395,000	96,000	585,000	263,000
,, 1929 -	340,000	102,000	645,000	328,000
,, 1930 -	379,000	156,000	852,000	350,000
Imports, 1928 - -	79,000	No separate figures available	32,000	109,000
,, 1929 - -	80,000		15,000	141,000
,, 1930 - -	68,000		29,000	123,000
Imported, 1930 From:				
France I* - -	34,000		—	72,000
,, II* - -	68s. 0d.		—	53s. 0d.
Holland I - -	33,300		21,000	29,000
,, II - -	44s. 0d.		12s. 10d.	20s. 7d.
Belgium I - -	—		7,000	16,000
,, II - -	—		14s. 5d.	32s. 0d.
Other countries -	300		1,000	6,000
Total imports -	67,600		29,000	123,000
Average values -	56s. 0d.		13s. 10d.	42s. 10d.

* I = import in cwts.; II = average value per cwt.

Small Fruit.—*Continued.*

Home Prices

	STRAWBERRIES	RASPBERRIES	GOOSEBERRIES		CURRANTS			
					BLACK		RED	
	LB.	LB.	CWT.		CWT.		CWT.	
			S.	D.	S.	D.	S.	D.
1927, 1st quality	11d.	9¾d.	35	0	79	6	49	0
,, 2nd ,,	8d.	7¼d.	23	0	61	6	35	6
1928, 1st ,,	10d.	11d.	46	0	87	6	61	6
,, 2nd ,,	7d.	7½d.	30	6	69	6	44	0
1929, 1st ,,	11d.	10d.	38	6	53	0	42	0
,, 2nd ,,	7¾d.	7¼d.	24	6	40	6	28	6
1930, 1st ,,	9¾d.	7d.	30	0	39	0	33	0
,, 2nd ,,	6¼d.	4½d.	18	6	27	6	22	6

Canned and Bottled Fruit Pulp and Jam.

I—Apricots and apricot pulp canned or bottled without sugar.

II—Other fruit canned or bottled without sugar.

III—Fruit other than canned or bottled preserved without sugar (not dried).

IV—Pears, peaches and apricots preserved in syrup.

V—Drained Fruit (dutiable on sugar content).

VI—Pulp in syrup.

VII—Jam.

Imports in 1929

FROM	I	II	III	IV	V	VI	VII
U.S.A.	£4,145	£200,977	£1,029	£2,463,448	—	£934	£1,200
Spain	102,024	10,488	30,379	—	—	—	—
France	—	19,035	37,370	—	£96,135	2,882	1,041
Belgium	—	9,331	—	—	11,190	—	—
Holland	—	21,558	374,971	—	—	324	313
Italy	—	3,582	157,455	—	48,297	—	—
Russia	—	13,036	44,365	—	—	—	—
Other foreign countries	6,949	6,403	33,967	11,175	565	307	4,878
Australia	1,014	17,625	8,495	442,728	8	1,467	564
Other British countries		8,716		88,069			3,622
Total	£114,132	£310,751	£687,931	£3,005,420	£156,195	£5,914	£11,618

Canned, Bottled, and Dried Vegetables.

Imports in 1930

CANNED OR BOTTLED VEGETABLES.

FROM	TOMATOES	OTHER VEGETABLES
Italy	£493,115	£21,352
Spain	130,933	—
Belgium	—	90,044
France	53,344	49,584
United States of America	18,378	64,051
Other countries	22,814	12,742
	£718,584	£237,773

DRIED VEGETABLES.

Total import £14,320 from Holland, France and Germany.

Cream.

Estimated production in the United Kingdom in 1924 (*i.e.* sales off farms, and by creameries, but excluding cream consumed in farm households) - - - - 250,000 cwts.

Imports

FROM	1924	1930	1930 AVERAGE VALUE PER CWT.
	CWTS.	CWTS.	£ S. D.
Denmark	3,900	46,993	4 10 10
Holland	4,500	13,470	3 17 0
Switzerland	—	6,850	4 6 11
Norway	1,600	566	5 2 0
Other foreign countries	—	922	—
Irish Free State	48,500	67,119	4 17 5
Other British countries	—	36	—
	58,500	135,956	£4 12 7

The average import per annum for the period 1924-1927 was 91,000 cwts.

Condensed Milk.

The production in the United Kingdom at the last census (1925) amounted to - - - - - 780,000 cwts.

Imports in 1930

Condensed Milk.— *Continued.*

NOT SWEETENED.

FROM	CWTS.	AVERAGE PRICE PER CWT. £	S.	D.
United States of America	107,127	2	18	0
Holland	151,649	2	3	0
Other foreign countries	125,411	2	11	0
Canada	13,709	2	8	7
Other British countries	5,071	2	6	7
	402,967			

FROM	CWTS.	AVERAGE PRICE PER CWT. £	S.	D.
SWEETENED, WHOLE.				
Holland	147,967	1	17	7
Switzerland	25,601	2	17	0
Denmark	28,583	2	11	2
Other foreign countries	1,535		—	
Canada	7,971	2	14	7
Irish Free State	5,599	2	9	0
New Zealand	9,046	2	11	0
Other British countries	364		—	
	226,666			
SWEETENED, SEPARATED.				
Holland	1,628,797	1	8	5
Denmark	261,432	1	9	7
Other foreign countries	11,537	1	5	0
Irish Free State	70,517	1	12	7
Other British countries	149		—	
	1,972,432			

Total import of Condensed Milk from Empire countries, 112,000 cwts.; from foreign countries, 2,490,000 cwts.

Milk Powder.

Imports in 1930

FROM	CWTS.	AVERAGE PRICE PER CWT. £ s. d.
SWEETENED.		
New Zealand - - - - -	14,358	5 14 0
Other countries - - - - -	6	—
	14,364	
NOT SWEETENED.		
Holland - - - - - -	96,911	1 18 5
France - - - - - - -	8,127	2 2 5
U.S.A. - - - - - - -	10,967	2 5 2
Other foreign countries - - -	13,448	2 5 7
Australia - - - - - -	5,696	2 1 0
New Zealand - - - - -	87,415	3 10 0
Canada - - - - - - -	25,988	2 0 0
Irish Free State - - - - -	1,888	1 14 2
	250,440	

Beef.

The consumption of beef in the United Kingdom is between 60 lbs. and 65 lbs. per head of the population per annum, and the home-grown supplies have met more than 50 per cent of the consumption in each of recent years, and in some years have risen to 58 per cent of the consumption. The importation of beef is very largely from countries that are near enough to send the carcases in a chilled condition and not completely frozen.

Home-grown beef in 1928 - - - - 16,200,000 cwts.
Total imports in 1928 - - - - 12,160,000 ,,

Imports in 1930

FROM	CWTS.	VALUE
Argentine - - - - - -	9,270,860	£26,261,606
Uruguay - - - - - -	1,142,600	2,944,595
Australia - - - - - -	805,940	1,793,473
New Zealand - - - - -	305,500	674,135
Other countries - - - - -	1,257,680	4,284,285
	12,782,580	£35,958,094

Mutton and Lamb.

The consumption of mutton and lamb in the United Kingdom is between 25 lbs. and 27 lbs. per head of the population per annum, and the home-grown supplies have met about 52 per cent or 53 per cent of the consumption in each of recent years.

Mutton and lamb are imported in a frozen condition which does not adversely affect the condition of the meat in the same way as beef. Mutton and lamb being in small portions can be frozen through much more quickly than beef, and thus avoid loss of cell moisture. The imports of mutton and lamb are chiefly from New Zealand and Australia, although the imports from South American countries have risen in some years to 25 per cent of the total.

Home-grown mutton and lamb in 1927	6,066,000 cwts.
Total number of live sheep in 1928	28,250,000

Imports in 1930

FROM	CWTS.	VALUE
Argentine	1,452,400	£4,115,597
Uruguay	422,660	1,185,334
Australia	811,260	2,487,542
New Zealand	3,293,440	10,934,279
Other countries	406,520	933,329
	6,386,280	£19,656,081

Pig Products.

The latest available statistics of production for the United Kingdom are for 1925.

Total Pork, Bacon, Ham, Lard - - 5,880,000 cwts.

Separate figures for each commodity are not available.

Average wholesale prices of United Kingdom produce during 1930, compiled from monthly averages at Birmingham, Leeds, London and Manchester:

Pork—British	£5	14	4	per cwt.
Irish	5	14	4	,,
Bacon—British Wiltshire green	6	6	6	,,
Irish Wiltshire green	5	14	0	,,
Dried or Smoked	6	15	0	,,

Pig Products.—*Continued.*

Second qualities of above three classes of bacon about 6 per cent less.

Ham—English York	£10	11	6	per cwt.
When cut 18-28 lbs. about £1 10s. per cwt. less.				
Ham—Irish Dried or Smoked	9	7	0	,,

In comparing these prices with the averages worked out later for the corresponding item when imported, note must be made that there is a margin between the first importing price and the wholesale distributing price on the above basis. This difference is probably about 5 per cent in each case.

Imports

BACON. Totals for 1930

FROM	CWTS.	AVERAGE PRICE £	s.	d.
Russia	49,614	4	3	0
Denmark	6,117,866	4	10	0
Poland	483,295	3	18	5
Sweden	550,278	4	8	0
Holland	842,309	4	10	0
United States of America	479,097	4	7	5
Other foreign countries	235,854		—	
Irish Free State	330,679	5	6	0
Canada	99,298	4	18	0
Other British countries	2,892		—	
Total imports	9,191,182			

The Customs entries into the United Kingdom show a decline of imports from the United States of America from 1,500,000 cwts. in 1925 to the above figure in 1930. The imports are stated as arriving from the country whose port is shown as the point of shipment. During part of each year quantities of American produce are shipped from Montreal and are entered by the Customs as imports from Canada.

Total value of imports from foreign countries	£38,914,000
,, ,, ,, ,, British ,,	2,238,000

Pig Products.—*Continued*

HAM. **Totals for 1930**

FROM	CWTS.	AVERAGE PRICE PER CWT. £ s. d.
United States of America	820,604	4 19 0
Argentine	25,541	4 2 0
Poland	42,828	4 2 0
Other foreign countries	9,968	—
Irish Free State	15,290	6 8 10
Canada	84,034	5 6 0

Total value of imports from foreign countries - - £4,392,000
„ „ „ „ British countries - - £568,000

The import of foreign *fresh pork*, which was previously imported in considerable quantities, mainly from Holland, ceased in 1927 under an order made by the Minister of Agriculture.

FROZEN PORK. **Imports in 1930**

FROM	CWTS.	AVERAGE PRICE PER CWT. £ s. d.
United States of America	108,408	4 16 0
Argentine	74,109	4 6 0
Other foreign countries	5,071	—
New Zealand	136,945	3 19 5
Australia	22,620	3 11 0
Other British countries	4,593	—

There was also imported 84,000 cwts. of salted pork, mainly from Denmark and U.S.A. Average value 34s. per cwt.

Total value of all pork imports from—
Foreign countries - - - - - - £996,000
British „ - - - - - - [1]£1,888,000

LARD.

Estimated United Kingdom production about 400,000 cwts. annually.

Average wholesale price during 1929 - £4 2 0 per cwt.
„ „ „ 1930 - 3 16 0 „

[1]The latter figure includes £1,242,000 value of imports of fresh pork from the Irish Free State.

Pig Products.—*Continued.*

Animal Lard. Imports in 1930

From	Cwts.	Average Price per Cwt. £ s. d.
Denmark	45,220	3 0 0
Holland	35,760	2 17 0
United States of America	2,172,520	2 14 7
Other foreign countries	38,700	—
Irish Free State	33,400	3 0 7
Canada	168,340	2 16 0
Other British countries	11,060	—

Imitation Lard.

From	Cwts.	Average Price per Cwt. £ s. d.
Holland	25,400	2 11 2
Belgium	20,140	2 14 2
Other foreign countries	4,240	—
Irish Free State	22,320	2 8 0

Value of total imports, £7,038,000.

Poultry.

Alive. Imports in 1930

From	Nos.	Value
Belgium	105,041	£10,505
Other foreign countries	16,089	2,244
Irish Free State	971,065	171,327

Dead.

From	Cwts.	Average Price per Cwt. £ s. d.
Russia	126,353	4 11 0
Hungary	85,666	5 2 0
Austria	53,461	5 3 7
Holland	43,907	4 18 0
France	37,184	5 14 0
Yugoslavia	25,509	4 10 0
Other foreign countries	81,501	—
Irish Free State	115,684	5 10 0
Other British countries	656	—

Numbers of each kind of Poultry on Agricultural Holdings

Poultry.— *Continued*

YEAR	FOWLS	DUCKS	GEESE	TURKEYS
ENGLAND AND WALES.				
1908 - -	28,249,000	2,669,000	686,000	628,000
1913 - -	29,026,000	2,188,000	577,000	652,000
1921 - -	24,816,000	2,391,000	517,000	445,000
1929 - -	42,757,000	2,243,000	616,000	696,000
1930[1] - -	47,901,000	2,383,000	604,000	667,000
SCOTLAND.				
1913 - -	4,054,000	209,000	20,500	57,000
1921 - -	4,216,000	239,600	23,400	69,700
1928 - -	5,424,000	239,600	24,000	75,400

[1]The 1930 total of fowls was made up by 21,441,000 adult birds; *i.e.* over 6 months on 4th June, and 26,460,000 young birds.

Imports in 1930

Game.

ALIVE.

FROM	NOS.	VALUE
Egypt - - - - - -	197,400	£7,290
All other countries, including British	10,537	1,516

DEAD.

FROM	CWTS.	VALUE
Russia - - - - - -	12,659	£44,240
Other foreign countries - - -	3,053	15,388
New Zealand - - - -	2,715	4,855
Irish Free State - - - -	1,137	6,695
Australia - - - - -	11,008	2,565

Eggs.

Returns of the numbers of poultry kept, birds killed for food, eggs produced, etc., in the United Kingdom are difficult to compile accurately. Official figures are limited to those for holdings of more than one acre, whereas large numbers of

Eggs.—
Continued.

poultry are kept by cottagers and others, both in rural districts and in towns. Enquiries have been made from the Ministry of Agriculture, and it is estimated that an addition of 30 per cent to the available figures will cover the total production. Upon this basis the production of eggs for England and Wales may be taken as approximately 2,553 million in 1930.

The production of eggs on agricultural holdings of over one acre in England and Wales shows the following increase in recent years.

	MILLIONS
1908	960
1913	941
1926	1,530
1927	1,679
1928	1,794
1929	1,864
1930	1,964

Average of the Monthly Prices during 1930 for English and Imported Eggs

	PER GREAT HUNDRED (120) s.	d.
English National Mark (Special Weight)	19	11
,, ,, ,, (Standard)	18	2
Ordinary—1st quality	17	3
,, 2nd ,,	15	7
Irish Free State (Extra selected)	15	8
,, ,, (Selected)	15	0
Belgian	13	6
Danish (18 lb.)	15	1
,, (15½ lb.)	13	3
Dutch, brown	17	0
,, mixed	13	10
French (16 lb.)	14	5
Polish, blue	9	2

Eggs.—*Continued.*

Imports in 1930

FROM	NUMBER OF GREAT HUNDREDS (120)
Russia	84,842
Sweden	491,168
Denmark	6,728,383
Poland	3,612,564
Holland	3,680,696
Belgium	2,333,656
France	658,731
Germany	391,101
Egypt	451,479
China	1,712,568
Other foreign countries	559,636
Irish Free State	4,781,096
Union of South Africa	467,455
Australia	554,653
Other British countries	33,252

Value of egg imports in 1930:

From foreign countries	£12,827,166
,, British ,,	£3,550,480

There were imported, in addition, eggs not in shell, albumen and dried eggs to the value of £3,418,000, of which £3,376,000 was from China.

Butter.

Imports in 1930

FROM	CWTS.	AVERAGE PRICE PER CWT.		
Russia	165,451	6	4	0
Finland	233,510	6	16	0
Estonia	96,338	6	14	0
Latvia	49,200	6	15	0
Poland	64,997	6	2	0
Sweden	279,565	7	2	0
Denmark	2,318,525	7	7	0
Holland	89,094	7	8	0
France	7,054	7	3	0
Argentine	414,050	6	4	0
Other foreign countries	40,734		—	
Irish Free State	521,963	6	6	0
Australia	950,582	6	6	0
New Zealand	1,564,436	6	18	0
South Africa	25,825	7	10	0
Other British countries	7,350		—	

Butter.—*Continued.*

The home production of butter is about one-sixth of the total consumption of the United Kingdom. In regard to foreign supplies it may be noted that in relation to pre-War shipments made to this country, Sweden and the Baltic States are largely taking the place of France, the supplies from the latter country having diminished. Siberia is sending rapidly increasing quantities. Finland and the Ukraine are making determined attempts to secure trade in the London market, and Denmark retains her heavy share amounting to more than 33⅓ per cent of our imports. Still further competition is developing in the Argentine, where considerable organisation of the dairying industry is taking place.

The average wholesale price during 1930 for British butter of first quality was 19s. 4d. per 12 lbs. and of second quality 17s. 2d. per 12 lbs.

Margarine.

Imports in 1930

FROM	CWTS.	VALUE
Holland - - - - -	820,479	£2,333,505
Other foreign countries - - -	6,295	82,244
Irish Free State - - - -	19,177	68,575

Cheese.

The imports of cheese have remained at a steady figure of about 3,000,000 cwts. annually during the last five years.

Imports in 1930

FROM	CWTS.	AVERAGE PRICE PER CWT. £	s.	d.
Holland - - - - - -	183,076	3	14	0
Italy - - - - - - -	144,650	4	16	0
Switzerland - - - - - -	37,715	6	14	0
France - - - - - - -	26,660	5	8	0
Other foreign countries - - -	15,494		—	
Australia - - - - - -	47,856	3	13	0
Canada - - - - - - -	678,294	4	0	0
New Zealand - - - - -	1,960,901	4	0	0
South Africa - - - - - -	15,856	4	6	0

Value of total of all imports £12,602,974, of which £10,772,038 was from Empire countries. Cheese—*Continued.*

The latest available statistics covering the United Kingdom production of cheese are for 1925. In that year the cheese manufactured on farms and in factories was 860,000 cwts. Assuming, for the purpose of comparison with the above figures of imports in 1930, that a similar volume was produced in the United Kingdom in the latter year, the home production represents 21·7 per cent of total requirements.

Average Wholesale Prices for English Cheese in 1930, compiled from the Monthly Averages at Bristol, Liverpool and London (not including farm or country prices.)

Dairy cheddar, 1st quality	£5	5	6	per cwt.
,, ,, 2nd quality	4	16	0	,,
Loaf cheddar, 1st quality	5	10	0	,,
,, ,, 2nd ,,	4	19	0	,,
Cheshire graded	4	10	6	,,

Apples.

	CWTS.
Home crop, 1928	2,905,500
,, 1929	6,415,000
,, 1930	3,831,000
Imports, 1928	6,089,000
,, 1929	5,758,000
,, 1930	6,182,000

Average Value per Cwt. in 1930 of Home Crop

	S.	D.
Beauty of Bath, 1st quality	28	6
Dessert varieties, 2nd ,,	17	0
Cooking varieties, 2nd ,,	11	6

Imports in 1930

FROM	CWTS.	AVERAGE VALUE PER CWT. S.	D.
United States of America	2,234,757	25	0
Canada	2,086,331	19	6
Australia and New Zealand	1,731,053	30	10
Other countries	119,383	—	
	6,171,524		

Apples.— *Continued.*

Monthly Variations in Imports in 1930

	CWTS.
January	609,000
February	487,000
March	506,000
April	434,000
May	474,000
June	563,000
July	454,000
August	145,000
September	156,000
October	898,000
November	749,000
December	706,000

Pears.

		CWTS.
Home crop,	1928	320,000
,,	1929	513,000
,,	1930	369,000
Imports,	1928	860,000
,,	1929	1,078,000
,,	1930	1,030,000

Average Value per Cwt. in 1930 of Home Crop

		S.	D.
Conference,	1st quality	31	0
,,	2nd ,,	21	6
Fertility	1st ,,	21	0
,,	2nd ,,	15	3
Hessle	2nd ,,	11	0

Imports in 1930

FROM		CWTS.	AVERAGE VALUE PER CWT. S.	D.
Belgium		230,694	16	0
United States of America		433,875	37	5
France		19,288	45	6
British Empire:				
South Africa	107,571			
Australia	129,653			
New Zealand	19,409			
Canada	63,547			
Others	1,390			
		321,570	40	10
Other countries		23,940	—	
		1,029,367	34	0

Monthly Variations in Imports in 1930

Pears.—*Continued.*

	CWTS.
January	18,000
February	22,000
March	50,000
April	54,000
May	79,000
June	54,000
July	33,000
August	205,000
September	169,000
October	145,000
November	78,000
December	124,000

AGRICULTURAL EMPLOYMENT IN GREAT BRITAIN

The following figures taken from the Annual Agricultural Statistics of the Ministry of Agriculture and Fisheries for England and Wales, and of the Department of Agriculture for Scotland, show in the most significant manner the great decline in employment on the land in recent years:

Number of Workers Employed on Agricultural Holdings of more than One Acre in Great Britain

YEAR	NUMBER OF WORKERS
1921	996,081
1922	Not available
1923	892,411
1924	923,805
1925	925,400
1926	920,994
1927	893,724
1928	890,125
1929	888,286
1930	857,214

Between 1921 and 1930 the number of employed persons in agriculture has diminished by 138,867 or 14 per cent. There are accordingly this additional number of people competing for employment in the towns of Great Britain. The additional cost of unemployment benefit may be estimated in round figures at £6,500,000.

PART THREE

A SCHEME OF EMPIRE PREFERENCE

PART THREE

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A SCHEME OF EMPIRE PREFERENCE

FOREWORD

THE FOLLOWING Report is chronologically the first of the series of reports, based on the investigations conducted by the Research Committee of the Empire Economic Union, which are included in this volume. It was prepared with a view to the Imperial Conference of 1930, in the hope that it might be of assistance, not only to the general public in following the deliberations of the Conference, but also to the representatives of the Governments concerned. That hope was disappointed by the attitude of the British Government of the day. The present Government, happily, is committed to a policy of Empire co-operation, and has already embodied a substantial instalment of that policy in the Import Duties Act. In any case the Report, in its main features at least, is as applicable to the situation of 1932 as to that of 1930, while the need for arriving at a comprehensive inter-Imperial agreement is far greater and more urgent.

The Report is based on a twofold conception of Imperial Preference, first of all as something worth carrying into effect for its own sake and without bargaining, and secondly as something whose value can be greatly enhanced by business-like negotiation and by the permanence assured by definite agreements. The other Empire countries are so much the best customers of each Empire country—apart from any deeper community of interest—that it would pay each of us, as a fair business proposition, to give preference to the rest without any careful reckoning of reciprocity. Some measure of Empire Preference is, indeed, the natural concomitant of any tariff in any part of the Empire, whether regarded as a matter of enlightened self-interest or as a recognition of our moral responsibility for each other's welfare. On the other hand, prefer-

ences thus given can, obviously, not confer nearly as great a mutual benefit as preferences secured by intimate consultation and by the close discussion of details.

Moreover, the problem to-day is no longer the comparatively simple one of an exchange of British manufactures for Empire foodstuffs and raw materials that it was supposed to be a generation ago. It is essentially a problem of inter-Imperial rationalisation, both in industry and agriculture. A large part of the solution of the problem will rest upon the industries themselves. That makes it all the more essential that the tariff preferences should be carefully and exactly adjusted to the actual or contemplated plans of co-operation in the business world, and that both manufacturers and primary producers should be able to make their arrangements on a foundation of security.

The immediate practical conclusion in the present situation is that the British Government should not approach the forthcoming Imperial Conference in a narrow bargaining spirit. Nor should it hold back, for the sake of future bargaining, such preferences as are the natural accompaniment of the measures that ought to be taken at once to protect British agriculture, or to assist Colonial development, *e.g.* in respect of sugar. On the other hand, it should not look to solving the problem at Ottawa by general resolutions, but by business-like negotiation. When it comes to negotiations these must, in the first instance at any rate, be with each Dominion separately. The conditions vary widely in each case, and it is only in the course of direct individual negotiation that the detailed difficulties of the problem come to light and that their solution can be found. It was by sitting round the table as negotiators (assisted in many instances by representatives of the Dominion point of view) and attempting to draw up draft agreements, that our Committee arrived at its conclusions. The agreements appended to this Report, in fact, preceded and guided the formulation of the main recommendations of the Report itself.

The appendices are, therefore, in a sense the most important part of this section. At the same time it is necessary to

keep in mind that the draft agreements do not profess, in any sense, to embody final conclusions. Their object is to furnish a practical illustration of the lines on which the problem can be dealt with. The project, for instance, of a quota for Empire wheat is one which may be found to involve serious practical difficulties from the point of view of the grain trade, difficulties not involved in the arrangements for a domestic wheat quota, and it may well be that, in the end, the simpler and more elastic method of a duty on foreign wheat may commend itself.

L. S. A.

March, 1932.

INTRODUCTORY NOTE

(BY THE LATE LORD MELCHETT)

A year ago a representative body of industrialists joined with me in signing a Manifesto on the importance of the development of inter-Imperial trade. As a sequel the Empire Economic Union was formed.

We took the view that, at the time when many were engaged in propaganda in the support of policies for the development of inter-Imperial trade, it would be of advantage if we were to confine our efforts to an investigation of the problem as exact and as scientific as was possible. Accordingly, we appointed a strong Research Committee under the Chairmanship of the Rt. Hon. L. S. Amery, M.P., and under the direction of this Committee the statistical and economic staff of the Union have investigated the world production of every primary commodity. Much of this information was communicated to the public in summary form in my book entitled *Imperial Economic Unity*.

With this basis of ascertained fact the Research Committee then investigated the problem of devising means for making the Empire more self-supporting than it is, and the preliminary conclusions of that Committee are published in the attached Report in the hope that they may be of assistance to those who are representing their respective Governments at the vitally important Imperial Conference which is about to assemble.

Any consideration of this problem must take account not merely of the existing trade which may be diverted from foreign countries to British countries, but also of the gigantic future possibilities.

As the Research Committee point out in their Report, we do not visualise a Chinese Wall around the Empire which would entirely exclude foreign trade. On the other hand, we definitely hold the view that an overwhelming case exists for the special stimulation of inter-Imperial trade.

It will be observed that the present Report relates primarily to the trade between the United Kingdom, the Dominions and India, and the Union still has to investigate the problems of trade between the United Kingdom and the Crown Colonies, Protectorates and Mandated Territories; and of inter-Imperial trade other than that with the United Kingdom.

May I express the hope that the publication of the Report of the Research Committee and the interesting series of Draft Trade Agreements which that Committee has prepared will lead to active public consideration, not merely of the general principles, but also of the details involved.

I should like to pay my tribute to the painstaking work of the members of the Research Committee and to the large number of public-spirited persons who from time to time placed their expert knowledge at the disposal of the Committee.

MELCHETT.

September, 1930.

REPORT OF THE RESEARCH COMMITTEE
ON
THE EMPIRE ECONOMIC UNION

General Position. The conception of Imperial Economic Unity, of the free but effective economic co-operation between the various nations and communities of the British Commonwealth, has, in recent times, gained an ever wider measure of support. It is avowedly included as the principal aim of its policy by one of the great parties in the State, without being disavowed, as an aim, by the other parties. It has been preached, with characteristic vigour and with no small measure of success, by Lord Beaverbrook as a policy of immediate and wholehearted action. Even more significant is the extent to which the conception has won adhesion from bodies of such different complexion and outlook as the Federation of British Industries, the Chambers of Commerce, the Chamber of Shipping, the National Union of Manufacturers, the chairmen of the great joint-stock banks and other city men, who signed a recent memorandum, and the Trade Union Congress, not to speak of associations like the British Empire Producers' Organisation, or the Empire Economic Union, which might be regarded as already predisposed in its favour.

Apart from all political considerations the economic case for making the Empire the basis of our policy is an overwhelmingly strong one. Taking conditions as they exist to-day —the commercial bonds which have already developed, in part as the result of naturally complementary conditions, but no less of constitutional and sentimental considerations, reinforced already in appreciable measure by tariff and other forms of mutual preference—the fact stands out that the industry and agriculture of each Empire country is sustained to a large, and in many cases, preponderant extent by the purchases of other Empire countries. In relation to population the various peoples of the Empire are far greater purchasers, *per capita*, of Empire goods than any foreign populations on a corresponding economic level. An increase in the prosperity of any Empire country is accordingly more bene-

ficial to all other Empire countries than a similar increase in the prosperity of any foreign country. Canada is far more interested in Britain's prosperity, and Britain in Australia's prosperity, than either is interested in the prosperity of the United States or of Germany. There is, therefore, already a clear case for each Empire country, apart from all further advance by negotiation, to pursue in its purchases a policy calculated to be beneficial to other Empire countries.

To what limit can that policy be pressed? A purely statistical consideration of resources, both actually developed and capable of early development, leaves no doubt that, in respect of most primary products and of practically all manufactures, the Empire is capable, theoretically, of being made fully self-supporting and self-sufficing. There are, of course, many factors, geographical, technical, and commercial, which make an absolutely closed Economic Empire both impracticable and undesirable, and, indeed, throughout this Report concentration of effort upon Empire trade is envisaged as in no sense excluding, for any Empire country, the fostering of its foreign trade, but rather as contributing to establish it on a sounder foundation.

In respect of certain of our industries, for instance, it is evident that they have a productive capacity in excess of home requirements which could not be absorbed in Empire countries alone. Perhaps the most outstanding example of this arises in connection with the coal industry, the bulk of whose large export trade is conducted with the Continent of Europe.

Again, when we examine certain commodities we find that the circumstances are such as to compel, for the present at least, a continuance of intimate trading relationships with foreign countries. For example, while the Empire consumes 15 per cent of the world's petroleum, it produces only 1½ per cent. Empire production of raw cotton is statistically equal to five-sixths of its consumption, but Great Britain, the largest consumer, at present obtains the bulk of its supplies from the United States. This is because American cotton is of longer staple than that of India, the chief Empire exporter of raw

cotton, whose exports go mainly to Japan, where the mills are equipped to deal with such short-staple cotton, while the mills of Lancashire are not so equipped.

One further example which may be quoted is that of soft timber, of which Great Britain is a very large importer and Canada a very large exporter. Canada, however, very naturally avails itself of the enormous market—that of the United States—which is at its door, while the facts of geography render, and will probably continue to render, the Baltic countries better economic sources for a large proportion of Britain's timber requirements, though price stability to-day is largely due to occasional shipments from Canada and Australia.

Invisible Exports. Again, the mere fact that we shall and must continue to export large quantities of goods to foreign countries, together with our large 'invisible exports' arising out of our investments in those countries, and the valuable services rendered to them each year by our shipping, banking and insurance industries, makes it inevitable that each year we must take from them in payment large quantities of their goods.

On the other hand, in this connection, it is important that attention should be drawn to the fact that very large quantities of competitive foreign manufactured goods are coming to this country, not as payment for our exports of goods and for our 'invisible exports' to foreign countries, but in fact in payment for our exports of goods and for our 'invisible exports' to Empire countries.

In round figures the total of our 'invisible exports' is £500 million and, therefore, our total imports of goods would exceed our total exports of goods by this amount but for the fact that we are constantly making new investments of British capital abroad. The annual rate of these investments is in the neighbourhood of £150 million, and accordingly the net excess of our imports over our exports is £350 million.

The distribution of our 'invisible exports' between foreign countries and Empire countries has never been precisely estimated, but there seems no doubt that at least half the total has, in the past, been in respect of Empire countries, and

that rather more than half our new investments of British capital overseas is in Empire countries. Accordingly, there will be no very large error in assuming that if trade were following the course we should anticipate from these facts, the excess of imports of goods from foreign countries over our exports of goods to foreign countries would be something under £200 million a year, and the corresponding excess in respect of our trade with Empire countries would be something over £150 million.

When, however, we come to examine the actual situation, we find something quite different, namely, only a slight excess of imports of goods from Empire countries over our exports to those countries, so that nearly the whole of our adverse balance of trade is represented by the surplus of the imports of foreign goods over our total exports to foreign countries.

It is quite clear, therefore, that a considerable part of the credits created in our favour in Empire countries by means of our trade, both 'visible' and 'invisible', is liquidated by large exports of foodstuffs and raw materials from Empire countries to foreign countries and large exports of manufactured goods from foreign countries to the United Kingdom.

Effect of Industrial Protection and Preference.

The adoption by the United Kingdom of a general system of protection in respect of manufactured articles and of preference for Empire products would automatically not only diminish the imports of such manufactured articles into the United Kingdom, but at once largely increase the imports of Empire foodstuffs and raw materials into the United Kingdom.

It is frequently suggested that a policy of protection directed against foreign manufactured goods entering the United Kingdom would have, for balance of trade reasons, a serious reaction on our exports of manufactured goods. In fact it happens to be the case that the foreign countries which supply us with the bulk of the imports of foreign manufactured goods only take from us a very moderate proportion of our exports of manufactured goods. From Germany, Belgium, France, Switzerland, Italy and the United States of America we import two-thirds of our retained imports of manufac-

tured goods, whereas we export to them only just over one-sixth of our total exports of manufactured goods.

We realise also that there are certain foreign countries which stand in a peculiar relationship to ourselves. Apart from countries like Egypt and Iraq, or a Mandated Territory like Palestine, which, though constitutionally outside the Empire, are yet intimately associated with it by political and strategic, as well as economic interests, and therefore deserve exceptional treatment, there are other countries, entirely outside our political orbit, such as the Argentine, where the importance of our commercial interests and the extent of our capital investments warrant special consideration.

Trade Relationships with Foreign Countries.

We have drawn attention to these facts because there are some critics of the conception of the Empire as an economic unit who appear to think that its advocates are indifferent to or are desirous of terminating our important economic connections with foreign countries. Nothing, of course, is further from our thoughts.

Our fervent belief in the ideal of Imperial economic unity has in no way blinded us to the practical realities of the world situation. On the other hand, these realities in no way lessen our belief in the fact that there is an overwhelming case for the development of inter-Imperial trade. Even in the case of the examples we quote it may well be the case that chemistry for the distillation of coal, and the production of alcohol fuel from cellulosic and other waste materials, may provide us with our motor spirit; the rapidly growing experience of cotton cultivation by the Empire Cotton-Growing Corporation and the reorganisation of the Lancashire Cotton Industry may largely diminish our dependence on foreign raw cotton, while a long-term Forestry policy in Great Britain may make us in time far more self-supporting in respect of soft timber.

The Statistical Position.

In round figures the United Kingdom imports and retains just over £300 million a year of foreign manufactured goods, representing the direct employment of over a million workers. The rest of the Empire imports an almost equal quantity. On the other hand, the United Kingdom imports from foreign countries over £500 million of foodstuffs and raw materials.

These figures summarise the position viewed statistically, but having regard to the rapid growth of the Overseas Empire, we must consider not merely the existing trade that can be diverted into channels more favourable to the Empire, but also the enormous possibilities which arise from ensuring that the rapidly growing trade shall be kept within Empire channels, and from a policy which will stimulate and intensify the growth of that trade. The present position is briefly shown by the statement that in 1927, the latest year for which figures are available, all the countries of the British Empire imported £1,380 million of goods from foreign countries and only £868 million from British countries.

Methods of Empire Trade Development.

Any consideration of the methods to be used for the further development of inter-Imperial trade must take account of the existing situation, and of the extent to which a policy of inter-Imperial co-operation in trade has already been developed. For many years all the Dominions, except Newfoundland, have accorded important tariff preferences in favour of manufactured goods imported from the United Kingdom, while the same is true of many of the Crown Colonies and Protectorates. These preferences have undoubtedly had a very important influence in maintaining British exports to the Empire.

In 1919 the United Kingdom established preference in respect of its existing tariff, and all duties subsequently imposed have been preferential in respect of Empire products. In the Finance Act of 1926 the important step was taken of stabilising for a period of ten years the preferences accorded by the United Kingdom. This was done by providing that the total amount of the preferences then existing should be maintained so long as the duties concerned were retained, and that if the amount of the duty on the foreign product should be reduced below the aforesaid total preference, then the Empire product concerned would be free of duty. These preferences, though operating within a narrow range of commodities, have exercised a very appreciable influence on Empire production, notably in the case of sugar, tobacco, dried fruits, coffee and wine.

In addition to the preferences which exist between the United Kingdom and various Empire countries, there are in being many valuable preferences between various parts of the Overseas Empire. Most of these are the result of formal agreements entered into between the Empire countries concerned.

There are further various forms of preference not of a directly fiscal character in force in this country affecting Empire trade and development.

Colonial Stock Act.

Not the least important of these is the Colonial Stock Act of 1900, under which the Governments of the Dominions and Colonies have hitherto obtained the advantage of having their stocks scheduled as Trustee Securities. The future of this valuable preference, the utilisation of which by the Dominions is at present imperilled by considerations of a constitutional character, will be discussed in a later section of this Report (see pp. 240-242).

The Empire Marketing Board.

The Empire Marketing Board, which was established in 1926 with an annual income of £1,000,000 a year, assists the marketing of Empire produce in this country, both by propaganda and indirectly by financial help given to various forms of research. The publicity work of the Empire Marketing Board is made more effective through the Merchandise Marks Act, by which the origin of many varieties of goods is now indicated to the buying public.

Cinematograph Films Act.

Another form of preference, whose efficacy might indeed be greatly strengthened, is provided by the quota system of the Cinematograph Films Act, which describes British films, broadly speaking, as British Empire films and not as United Kingdom films.

Government Departments.

Nor must we overlook the importance from the point of view of Empire trade of the policy of the Government Departments of this country in obtaining their supplies from United Kingdom or Empire sources as far as possible, even when considerable differences in cost are involved. This policy is also one adopted in varying degrees by other Governments in the Empire.

Imperial Defence.

Last, but not least, the fact that the United Kingdom is responsible for the main burden of the cost of Imperial De-

fence, has been in the past, and still in large measure is, the equivalent of a preference to the economic development of the other parts of the Empire.

Consideration of the Alternative Methods.

We now come to the consideration of the various methods which have been suggested for the purpose of increasing inter-Imperial trade.

It is, of course, necessary to recognise at the outset that the Dominions and India are already, in varying degrees, industrial nations, and that the development of their industries, more particularly since the end of the War, has materially modified the position which prevailed when the late Mr. Chamberlain inaugurated his campaign for Imperial Preference. We must realise that in any agreement which we may negotiate with Empire countries full recognition must be given to their natural desire to protect any industry which can reasonably be expected to develop efficiently under present or future conditions.

On the other hand, some of the secondary industries which have been established in certain Dominions, frequently as a result of the stoppage of supplies from outside sources during the War, have not a sufficient demand on which to base economic production in their own home market; in such cases co-operation with industries of a like kind in the United Kingdom might enable such industries to pursue their development on more efficient lines than would be possible under a policy of purely local protection.

Just as we frankly recognise the right of the Dominions to protect their growing industries, so we are equally entitled to expect the Dominions to recognise the needs of British home agriculture and British industry. In the main, no doubt, the conditions in this country are such that assistance by duties could only be justified for British agriculture if Empire produce were allowed free entry to ensure a sufficiency of supply. In other cases the special assistance afforded to British agriculture would, no doubt, as in the case of wheat and beet sugar, take some other form than that of a customs duty. At the same time it may not be out of place to affirm in general terms the right of the agriculture or industries of the United King-

dom to the same special consideration that is claimed by the Dominions.

A variety of proposals have been made for the purpose of giving effect to the policy of inter-Imperial trade development.

Import Boards and Bulk Purchase.

Though so far the policy commonly known as the 'Import Board Policy' has not been precisely defined, it clearly visualises that the whole supplies of certain commodities should be purchased either by a Department of State or by some Statutory Corporation created for the purpose.

Without entering into the general discussion of Socialism versus Individualism, we see obvious objections to bulk purchase by the Government. It would make every purchase a diplomatic issue and, accordingly, one likely to give rise to controversy with foreign, and possibly also between Empire Governments, while the subsequent distribution in this country of the commodities bought in bulk would give rise to serious internal political difficulties. This would be brought about by popular pressure for low prices, and might well lead to a revival of that dangerous device—a subsidy on all bread—which prevailed at the end of the War, and to similar subsidies in the case of other commodities bought by the State in bulk. The creation of Statutory Corporations which naturally would be largely under Government control would lead to the same difficulties, and we cannot believe that the complete elimination of competition would not result in time in a low efficiency of operation on the part of these Boards.

There is a general objection to unified purchase of any commodity by the Government or any other body. It demonstrated itself very clearly during the War when this method was employed for wheat, sugar, and many other commodities. The objection arises through the fallibility of human judgment. Members of purchasing Boards have to make up their minds from time to time as to the market position of any commodity, and have to come to their conclusions; however ably they may be composed, the number is obviously limited, and their judgment, however intelligently informed, may be mistaken. For instance, if a Board makes up its mind that wheat is going to rise in price and purchases the entire requirements

of a country on this basis, while events prove that world markets, instead of rising, fall, the error of judgment is transferred on a huge scale and involves enormous sums. With the present practice, where there are many individual buyers, some will take one view and some the opposite: whichever is right or wrong, some kind of average result which is not so far from the actual truth will be arrived at, and therefore the amount of error in either direction will never become of an extravagant nature. The risks of higher prices to the consumer or heavy loss to the taxpayer are outstanding and ever-present weaknesses of schemes of bulk purchase.

Licensing System.

Next there is the proposal that in respect of certain commodities there should be no importation except by licence, and that the licence should be granted in such a way as to ensure larger supplies of Empire products. In addition, the licensing system might be used so as to prohibit entirely the imports of certain classes of foreign products.

The obvious objection to the method of licensing is the very heavy administrative work which it must inevitably impose, with the corresponding inevitable delays and holding up of business. It would be impossible to avoid the feeling that a system which involved the grant of licences to particular individuals to import stated quantities of any particular commodity, must necessarily involve a degree of undesirable favouritism.

Quota System

There is, however, the special form of licensing system known as the quota system, under which it would be provided that of the imports into this country of some commodities, certain proportions fixed by the State should be of Empire origin. This quota system, if strictly limited to those commodities for which it was obviously suitable, would avoid most of the objections to a general licensing system. Though licences to import would be necessary they would be granted freely to all who applied for them, subject only to the condition that the recipients of the licences complied with the general conditions as to the proportion of the total imports which was to consist of Empire goods.

Preferential Tariffs.

Finally there is the much more familiar method of extend-

ing the existing principle of tariff preference to a much larger range of commodities. The method of regulation by means of duties has the advantage that it is a familiar method already in smooth and effective operation throughout the Empire. The imposition of new duties may involve initially a certain amount of inconvenience, but as soon as traders have become familiar with the new situation the tariff involves less interference with their freedom to trade than any of the other methods. It never prevents an individual trader from getting something that he specially wants. It is also true that tariff preferences involve the minimum of international complication, because every nation accepts without challenge the principle that every other nation is entitled to impose customs duties and to treat preferentially their own colonies and dependencies. Furthermore, the tariff method, though it naturally diminishes the importation of the commodity to which it is applied, nevertheless raises revenue in so far as the importation still continues, and this revenue is available for remission of taxation in other directions.

The stock objection that the imposition of duties must prejudicially affect prices is not one that can be sustained by any dispassionate consideration of the facts of the case in connection with primary production in the Empire. There is no question of imposing such duties except in respect of commodities which are already produced, or can easily be produced, in quantities amply sufficient to meet the United Kingdom demand. In most cases the competition between foreign and Empire supplies in these commodities is conducted on very narrow margins of price difference, often so trifling as to have no effect whatever on ultimate retail prices. In these circumstances duties of a very moderate amount would suffice, within a comparatively short time, to bring about a transfer from foreign to Empire sources of supply. During that period the competition between Empire producers, encouraged to embark on larger-scale production, and foreign producers, struggling, even at some sacrifice of past profits, to retain a valuable market, can well be relied upon to prevent the consumer from being adversely affected by any rise in prices,

even to the extent of the moderate duties which may be necessary for our purpose.

For the reasons given, the method of tariff preferences has, in general, overwhelming advantages over most other methods. Nevertheless, in a strictly limited number of cases there may be definite advantages in a quota system over a tariff system. Such are those cases where the commodities are confined to such simple and uniform grades that the consumer has no particular preference on grounds of taste as to their origin, and where on going into consumption the identity of the commodities is lost. Also where from the nature of things the commodity is necessarily handled by a small number of importers, and where, in general, the commodity, after importation, passes almost entirely into a limited number of factories for some process before it is available for consumption. Cases where the quota might be suitable are wheat and ultimately, perhaps, sugar. A further advantage of the quota system, certainly in connection with wheat, is that it can be made very conveniently to fit in with any scheme of guaranteed prices for home-grown wheat, which must almost inevitably include a quota scheme to secure its successful operation.

Imperial Trade Agreements.

The existing preferences which other Empire countries accord to the products of the United Kingdom, and the preferences which have been granted by the United Kingdom in respect of certain Empire products, have none of them been the result of agreements. They have been unilateral decisions on the parts of the Governments concerned, and generally the Governments granting preferences have not obtained the views of this country as to the precise form that the preferences should take. It is obvious that preferences which are the result of full consultation would be far more effective than those which are the result of generous gestures, and accordingly we have been led to the conclusion that there would be great advantages if extended preferences were the result of discussion and definite agreements between the United Kingdom and other Empire countries. In this respect we should only be following what is already the established practice as

between other Empire countries. Canada has concluded trade agreements with Australia, the Union of South Africa, and the West Indies. Australia has an agreement with New Zealand; and New Zealand an agreement with the Union of South Africa; while the Union of South Africa has an agreement with Southern and Northern Rhodesia.

The method of a trade agreement has the advantage that the preferences and other kinds of assistance take the forms which are likely to be of the maximum help to each party. Moreover, if the agreements are made for a sufficiently long period of time, their terms cease, during that period, to be matters of political controversy in the countries concerned, and accordingly industry is granted an assured period of certainty.

We do not contemplate, however, that the spirit of negotiation would be the same as that in negotiating a treaty with a foreign nation. The mere fact that so many Empire countries have unconditionally granted such important preferences shows at once that there would be no attempt at any precise balancing of advantages, but only the desire on the part of each country to grant the maximum amount of advantage that was possible without scrutinising too narrowly the advantages it would receive. As we have already pointed out, the mere fact that Empire countries are already such good customers to one another means that any advantage that will stimulate the prosperity of one country is bound to redound to the advantage of the other.

The importance of an agreement lies, in fact, more in the security and stability it gives than in any exact balancing of benefits mutually conferred.

Imperial Rationalisation.

We have devoted much time and thought to an effort to draft trade agreements between the United Kingdom and the various Dominions. As appendices to this memorandum we attach the drafts we have prepared of possible trade agreements between the United Kingdom and Canada, Australia, New Zealand, the Union of South Africa, the Irish Free State, Newfoundland and India, respectively. These are, of course, purely tentative and provisional, and their primary object is

to show by concrete illustration the manner in which we believe the desired objects can be arrived at.

It will be observed that the part of each agreement which relates to the benefits to be afforded to British manufactured goods takes practically the same form in every agreement. We have not attempted the difficult task of preparing the schedule of British manufactured goods which are to be entitled to free entry into the various parts of the Empire. This schedule could only be prepared after the fullest consultation between the Government of the United Kingdom and the Governments of the Dominions concerned, and with the full information which is at the disposal of these Governments. Furthermore, it is quite obvious that in addition to consultation between Governments, it would be necessary that representatives of the various industries in the United Kingdom and in the Dominions concerned should confer in order to give effect to the Imperial Rationalisation which is involved.

In respect of the items which it is proposed to put on the free list, it must necessarily be part of the agreement that the Dominion concerned shall impose duties on similar articles of foreign origin. We propose that these duties should be not less than 20 per cent so that British manufactured goods should have a really effective preference.

In respect of all other manufactured goods, that is to say goods of kinds which each Dominion considers itself to be in a position to manufacture with full or a reasonable degree of efficiency, it is contemplated that the duties on British goods shall be substantially less than those on foreign goods. We have suggested that the duties shall be arranged so as to accord to British goods an *ad valorem* preference of at least 20 per cent in respect of such items as may be agreed upon, and that otherwise the duty on United Kingdom goods shall be not more than half the rate imposed on foreign goods.

It will be noticed that in connection with the suggested agreement with Australia there are certain financial provisions which do not appear in the other agreements. These financial provisions are suggested as an appropriate modification of the agreement popularly known as 'The Thirty Million

Pounds Agreement' which was entered into with Australia in 1925.

Most Favoured Nation Clause.

In our existing commercial treaties with foreign countries, there appears the clause known as the most-favoured-nation clause, which as a rule is in the following terms:

> 'Articles produced or manufactured in the territories of one of the High Contracting Parties, imported into the territories of the other, from whatever place arriving, shall not be subjected to other or higher duties or charges than those paid on the like articles produced or manufactured in any other foreign country.'

We have considered whether in the Treaties which have been prepared there should be included a 'most-favoured-Dominion' clause in similar terms to the most-favoured-nation clause referred to above, but we have come to the conclusion that it would be more satisfactory to adopt the course which we have incorporated in the draft treaties, the pertinent paragraph reading as follows:

> 'No arrangement that either country may enter into with any foreign country shall have the effect of diminishing the advantages to either of the Parties of the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.'

The same considerations which have led us to this view prompt us to suggest that consideration should be given to the question of denouncing our existing Commercial Treaties which contain the most-favoured-nation clause, with a view to negotiating fresh treaties containing a clause in a form that would permit us to have a general and also an intermediate tariff on foreign products. The existence of such a clause would be of enormous assistance in enabling us to negotiate with foreign nations general reductions in tariffs as well as to provide for such special cases as Egypt or the Argentine, to which we have already alluded.

It is important in contemplating the question of Imperial Trade Agreements, that we should attempt to visualise the method of approach. It seems probable that it would be desirable in the first instance for the Imperial Conference to pass resolutions expressing in general terms the chief features which should be included in such agreements, leaving to subsequent negotiations the terms of the individual agreements to be drawn up between the Governments of the different Empire countries. **Method of Negotiation.**

We feel strongly that the Trade Agreements should be entered into for a substantial period of years, so that the certainty of their continuance should not be prejudiced by changes of Governments. This, of course, would not prevent modifications in any agreement from time to time by mutual consent.

So far our studies have been mainly devoted to the kinds of agreements which might be established between the United Kingdom and the self-governing Dominions, and between the United Kingdom and India. We have concentrated on this side of our work because it is the aspect which will figure most prominently at the Imperial Conference, and because the lines on which it will be settled will, no doubt, dominate the future development of economic relations, both between the Dominions and India, *inter se*, and between the Colonies, Protectorates and Mandated Territories and the rest of the Empire. Moreover, while certain Colonies, like the West Indian Colonies, which enjoy representative institutions, are, by constitutional convention, allowed to settle their own fiscal policy, and are in a position to negotiate mutual preference with the Dominions or the Mother Country, the position over the greater part of the dependent Empire is a peculiar one, in so far as our liberty of action is restricted, over most of our African territories, by various international obligations.

The League of Nations mandates in respect of British Togoland, the British Cameroons, and Tanganyika Territory; the Treaty of St. Germain-en-Laye in respect of the East African and Central African group; and the Anglo-French Agreement in respect of the West African group, all render immediate **Treaty Hindrances.**

action impossible. These restrictions affect other nations as well, and involve certain compensating advantages for British trade. Nevertheless, we are disposed to consider that, alike in the interests of the Empire as a whole and of the populations immediately affected, to whom we stand in a fiduciary position, it is desirable that they should be so modified as to get rid of the obstacle they impose to the fullest development of these territories. It will be for the British Government, in touch with all the other Governments concerned, to consider when and how such modification can best be carried out.[1]

Imperial Parcel-Post Service.

While for many years the postal rates for letters between Empire countries have been lower than those between Empire countries and foreign countries, except in the case of the United States of America, nevertheless, no comparable arrangement exists in respect of the parcel-post service. In view of the volume of trade that is transacted by parcel post, we would urge that the Governments of the Empire should consider the possibility of establishing preferential parcel-post rates, and we are led more strongly to this point of view when we discover that parcels are sent more cheaply, for example, from France and Germany to most parts of the British Empire than they are sent from the United Kingdom.

Cables and Wireless.

The position of the cable and wireless services of the Empire is such to-day as to give cause for anxiety. One cannot visualise a prosperous Empire, working as an economic unit, without postulating an effectively unified or rationalised cable and wireless service supported by the Empire as a whole, and free, not only from the disintegrating forces of foreign competition, but from the hampering influences and jealousies of local Government Departments, such as exist at the present time.

As an outcome of the Cable and Wireless Conference of 1928, at which all the Governments of the Empire were represented, a great utility corporation called Imperial and International Communications Limited was formed to put the telegraphic communications of the Empire on a rational basis.

[1]For a fuller discussion of these treaty restrictions upon our freedom of fiscal action in the Colonial Empire see Part IV, pages 165 to 178.

Two factors had to be borne in mind at the Conference. In the first place there was danger from foreign competition; it was clearly undesirable that the big American Corporations—such as the International Telephone and Telegraph Corporation—should gain a stranglehold on the communications of the Empire, and there was danger of this as long as cables and wireless were in competition. In the second place this competition was of itself uneconomic. Strategic interests had to be considered, and wireless was not yet sufficiently developed to supersede cables, and yet the cable companies and—even more—the Trans-Pacific and Trans-Atlantic cables owned by Governments of the Empire had been put in a precarious position by the competition of the Post Office Beam Stations. Such was the position that the Conference of 1928 had to face.

Seen against this background, the new arrangement falls into its true perspective. It is both a remedy and an experiment. It is a remedy for uneconomic competition, and for the unco-ordinated methods by which the communication systems of the Empire had come into existence. Economically and politically it is an experiment. It is an economic experiment in that the combination was designed by the Conference to have a monopoly of the cable and wireless communications of the Empire, in return for which monopoly it has an obligation to maintain essential cables and to provide services with certain outlying parts, which a purely commercial organisation might decline as uneconomic. Politically it is an experiment in that it has features representative of a combination of both private enterprise and public service on an Empire-wide scale. Its profits are limited, and on all major questions it is under the supervision of an Advisory Committee on which all the Governments of the Empire are represented. Apart from this it gains in freedom in that it is under commercial management, an elastic arrangement which becomes almost essential in the case of a Company having dealings with several Governments. Thus the Company is an Imperial Public Utility Company operating an Imperial Service, combining responsibilities of a governmental and a commercial nature. It has a strong claim for the sympathy and support of

the Governments and the publics of the Empire, and we recommend that its present difficulties and the possibilities of closer Imperial co-operation in assisting it in its task shall be taken seriously into consideration at this Imperial Conference.

Overseas Loans.

The view is often expressed that any loan raised in the United Kingdom, whatever its destination, must have the effect of stimulating exports in this country to an equal amount, but this view is an unsound one, because the funds, though nominally raised in London, may actually be provided out of the credits that accrue to us through our 'invisible exports', and accordingly the only effect of raising the loan in London may be to divert to other countries supplies of foodstuffs and raw materials that would have come to this country; and as a further result the manufactured goods which are purchased out of the proceeds of the loan can then be obtained from foreign sources.

It is understood that in many cases issuing houses take precautions to ensure that loans shall be a benefit to British industry, and while legislation to this effect may be undesirable, the situation might be met with considerable advantage, if the Treasury were to recommend to all issuing houses that this course should be pursued in every possible case.[1]

Colonial Stock Act.

Associated with the question of overseas loans is that of the future position of the Colonial Stock Act of 1900, to which brief reference has already been made. It is estimated that as a result of this Act, under which Dominion and Colonial Securities are scheduled as Trustee Securities, Dominion and Colonial Governments have been able to borrow on the London market at about three-quarters per cent less than they otherwise would have had to pay, and that the aggregate financial saving to the Dominions and Colonies concerned is about £5 millions a year.

Since the Imperial Conference of 1926, when the equality of status of the Dominions with the United Kingdom was

[1]See also Part V, Appendix II, pages 243-253, where the question of a rearrangement of the Stamp Duties, with a view to encouraging Empire trade and investment, is fully discussed.

established, certain difficulties have arisen. One of the provisions of the Act laid it down that the Treasury were empowered to make conditions governing the issue of stock issued by the Dominions or Colonies availing themselves of the advantage of the Act, and one of these conditions is a requirement that the Government concerned shall place on record a formal expression of its opinion that any legislation which appears to the Government of the United Kingdom to alter any of the provisions affecting the stock, which might result in injury to the stockholder, or to involve a departure from the original contract, would properly be disallowed by the Crown on the advice of the Government of the United Kingdom. The general power of disallowance was in principle abandoned as a result of the Imperial Conference of 1926, but so far as it was a part of the contract under which stocks had been issued, then technically the power of disallowance still remains in respect of legislation affecting such stocks. But it is felt by more than one Government of the Empire that to accept the Treasury requirement in future would be a derogation from its constitutional status, and there is a real danger of a deadlock.

It is obviously desirable, however, that this form of financial preference should be continued and, therefore, equally obvious that some solution should be arrived at in respect of the constitutional problem which has arisen, and it is much to be hoped that the forthcoming Imperial Conference, in considering the Report on the Operation of Dominion Legislation, 1929 (Cmd. 3479), will find some solution in regard to this matter in consonance with the present constitutional position.[1]

Another problem of great importance, though no doubt of considerable difficulty and complexity, is that of securing some greater measure of unity in the currency systems of the Empire, as well as some more effective co-operation for the most economical use of the Empire's gold resources in maintaining its external exchange situation.[2] **Currency.**

[1]See also Part V, Appendix I, pages 240-242, for a fuller discussion of this question.

[2]This question is dealt with more fully in Part V.

We are all aware that India has a rupee and Canada a dollar currency. But the nominal identity of the currency unit for a great part of the Empire tends to obscure the fact that the British, Australian, New Zealand, and South Africa pounds have nothing to do with each other, and the situation is confused, even at a time of crisis like the present in Australia, by the banks talking of charging discount on transmission instead of frankly treating the Australian pound as they would the Italian lira, as having changed its value relative to British sterling.

It would be out of place in a report of this character to embark upon a discussion of the various ways in which it might be possible, by free co-operation, to create a basis of currency unity and stability for the Empire. Such a unity has been established between this country and its West African and East African and Malayan Colonies, as well as with Palestine. It was maintained, at one time, between this country and Egypt on a basis of British Treasury Notes. Suggestions have been put forward for an Empire Note issue, based on Treasury Bills, or on the conversion into notes of a fixed quantum of the war debt of the various Empire Governments, or for the establishment of an Empire Central Bank.

The problem was cursorily examined at the Imperial Economic Conference of 1923, and then dismissed in the hope that an early return to the gold standard would give effective unity to the currencies of the Empire. That hope has been frustrated by the gold policy of other nations, notably France and the United States. There is to-day, in the opinion of many, an urgent need for the creation of some basis of inter-Imperial currency, which should take the place of gold for the purpose of maintaining continuity in inter-Imperial trade, and the stability of inter-Imperial exchange, and should economise our gold for external exchange purposes. There should be no insuperable difficulty, constitutionally or financially, to the solution of this vital problem.

Imperial Shipping. On account of the importance to this country of the services rendered to Overseas countries by British shipping, the British shipping industry has always opposed Flag discrimi-

nation, either by this or by other countries, because a general policy of Flag discrimination would hurt us more than it would benefit us, and, accordingly, we would not recommend any proposals which would infringe this principle.

On the other hand, it is evident that certain parts of the Empire would be materially benefited by the provision of better shipping services, and we think that an undertaking by the Government of the United Kingdom to subsidise certain shipping services might with advantage be a part of the obligations to be undertaken by the United Kingdom in some of the suggested Trade Agreements, more particularly with certain Crown Colonies. The Trade Agreement between Canada and the British West Indies is an example in this respect which it might be well worth while for us to imitate.

Imperial Economic Secretariat.

We endorse the view which has been expressed in several influential quarters that there should be an Imperial Economic Secretariat representing all the Governments of the Empire. This Secretariat would be engaged continuously in studying the economic situation of each part of the Empire and of the trade relationships between various parts of the Empire, and would be empowered to make recommendations from time to time to the Governments of the Empire.

At the present time there is much official and unofficial co-operation in economic matters between Empire countries, but there is not sufficient co-ordination to ensure that the maximum advantage in the promotion of Empire economic development is obtained.

There are in being amongst others the following important bodies on which the Governments of the Empire are officially represented:

The Imperial Economic Committee.
The Imperial Shipping Committee.
The Imperial Communications Advisory Committee.
The Empire Marketing Board.
The Imperial Institute.

as well as a number of Imperial scientific committees.

Despite all the joint activities referred to above, it is nevertheless true that the Empire as a whole is less well catered for from the economic point of view than are the nations of the world as a whole by the economic secretariat of Geneva under the auspices of the League of Nations.

APPENDIX ONE

HEADS OF SUGGESTED TRADE AGREEMENT
BETWEEN
THE UNITED KINGDOM AND THE DOMINION OF CANADA

The Agreement shall be for a period of ten years commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangement which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCE ON BRITISH MANUFACTURED GOODS

The Government of Canada undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Government of Canada undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCE FOR CANADIAN GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Canned Fish	10 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Bacon	1 penny per pound.
On all foreign Ham	1 penny per pound.
On all foreign Cheese	$1\frac{1}{2}$ pence per pound.
On all foreign Apples	5 shillings per hundredweight.
On all foreign Fruit Juices and Syrups	6 pence per gallon, in addition to any duty in respect of the sugar content.
On all foreign Fruits preserved in Syrup	5 shillings per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit Pulp preserved in Syrup	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit preserved without Sugar	5 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Hides and Skins	10 per cent *ad valorem*.[1]
On all foreign Milk Powder, full Cream	2 pence per pound.
On all foreign Milk Powder separated	1 penny per pound.
On all foreign Condensed Milk, sweetened or unsweetened	4 shillings per hundredweight in addition to any duty in respect of the sugar content.
On all foreign Poultry	2 pence per pound.
On all foreign Oats	1 shilling per hundredweight.
On all foreign Oatmeal and other Oat products	1 shilling and 6 pence per hundredweight.
On all foreign Barley	2 shillings per hundredweight.

[1]But see page 187.

All Canadian canned fish, and fruit preserved without sugar, and condensed milk unsweetened shall be exempt from duties of Customs, and all Canadian fruit preserved in syrup and Canadian fruit pulp preserved in syrup and condensed milk sweetened shall be exempted from the additional duties stated, provided that the tins or bottles have been manufactured in the British Empire and, where tins are used, provided that the tinplate has been manufactured in the United Kingdom.

All bacon, ham, cheese, apples, hides and skins, milk powder (full cream and separated), poultry, oats, oatmeal and other oat products, barley, being the produce of Canada imported into the United Kingdom shall be exempted from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar Canadian commodities, provided that the preference to the Canadian products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose other than the above, the duty on Canadian products shall, in the case where there is no Excise duty, be not more than half of the duty imposed on foreign products, and in those cases where there is an Excise duty, the Canadian preference shall be no less than half of the difference between the Excise duty and the Customs duty.

MILLING QUOTA FOR WHEAT

His Majesty's Government in the United Kingdom agrees that at the beginning of each cereal year it will, by Order in Council, after consultation with the Canadian Government

and the other Empire countries concerned, prescribe the minimum percentages of imported Empire and home-grown wheat respectively which shall be converted into flour in mills in the United Kingdom. Provided that harvest conditions in the Empire permit of it, these percentages shall be increased each year up to such maxima as may eventually be agreed upon. Subject to suitable arrangements with the milling industry, the administration to ensure the observance of the Order in Council shall be undertaken by the milling industry.

IMPORT OF FLOUR

His Majesty's Government in the United Kingdom shall take powers to enable them to prohibit, if necessary, the importation of flour into the United Kingdom, and under such powers shall be enabled to grant open licences for the importation of flour produced in any Empire country.

DUTIES ON BEEF, MUTTON AND LAMB

His Majesty's Government in the United Kingdom agrees that, after consultation with His Majesty's Government in Canada, and such other Empire countries as may be concerned, it will impose a duty of not less than one halfpenny per pound upon lamb, and of not less than one farthing per pound upon mutton and beef whether fresh, frozen or chilled and imported from foreign countries, this duty to be effective from a date to be agreed upon.

QUOTA FOR BEEF, MUTTON AND LAMB

It shall be permissible for His Majesty's Government in the United Kingdom to establish, as an alternative to the imposition of a duty on foreign beef, mutton and lamb, a quota system which shall prescribe annually the minimum amount to be imported from Empire countries.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into Canada, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem* or half of the duty (whichever may be the greater) will be accorded, if of United Kingdom origin imported into Canada.

Lists to be agreed.

APPENDIX TWO

HEADS OF SUGGESTED TRADE AGREEMENT

BETWEEN

THE UNITED KINGDOM AND THE COMMONWEALTH OF AUSTRALIA

The Agreement shall be for a period of ten years commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangements which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Government of Australia undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Government of Australia undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR AUSTRALIAN GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Butter - -	$1\frac{1}{2}$ pence per pound.
On all foreign Dried Fruits -	10 shillings per hundredweight in place of existing duties on dried fruits.
On all foreign Fruit Juices and Syrups, including Must	6 pence per gallon in addition to any duty in respect of the sugar content.
On all foreign Fruits preserved in syrup	5 shillings per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit Pulp preserved in syrup	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit preserved without sugar	5 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Fruit Pulp preserved without sugar	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Apples - -	5 shillings per hundredweight.
On all foreign Hides and Skins	10 per cent *ad valorem*.[1]

All Australian fruit and fruit pulp preserved without sugar shall be exempt from duties of Customs, and the Australian fruit preserved in syrup, and the Australian fruit pulp preserved in syrup shall be exempt from the additional duties stated, provided that the tins or bottles have been manufactured in the British Empire and, where tins are used, provided that the tinplate has been manufactured in the United Kingdom.

All butter, dried fruits, apples, fruit juices, hides and skins being the produce of Australia imported into the United

[1]But see page 187.

Kingdom shall be exempt from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar Australian commodities, provided that the preference to the Australian products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

His Majesty's Government in the United Kingdom undertakes that in any changes it may make in the duties on wine, it will not diminish the monetary amount of the existing difference between the ordinary rates of duty and the preferential rates of duty in favour of Australian wine; and it also undertakes to increase the monetary amount of the preference in favour of Australian sugar by one shilling per hundredweight on sugar of 96 per cent polarity with corresponding adjustments to the present United Kingdom Customs scale of polarisation.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose, other than the above, such duties, when imposed on Australian products, shall in a case where there is no Excise duty, be not more than half the duty imposed on foreign products, and in those cases where there is an Excise duty the Australian preference shall be not less than half of the difference between the Excise duty and the Customs duty.

MILLING QUOTA FOR WHEAT

His Majesty's Government in the United Kingdom agrees that at the beginning of each cereal year it will, by Order in Council, after consultation with the Australian Government and with the other Empire countries concerned, prescribe the minimum percentages of imported Empire and home-grown wheat respectively which shall be converted into flour in mills

in the United Kingdom. Provided that harvest conditions in the Empire permit of it, these percentages shall be increased each year up to such maxima as may eventually be agreed upon. Subject to suitable arrangements with the milling industry, the administration to ensure the observance of the Order in Council shall be undertaken by the milling industry.

IMPORT OF FLOUR

His Majesty's Government in the United Kingdom shall take powers to enable them to prohibit, if necessary, the importation of flour into the United Kingdom, and under such powers shall be enabled to grant open licences for the importation of flour produced in any Empire country.

DUTIES ON BEEF, MUTTON AND LAMB

His Majesty's Government in the United Kingdom agrees that, after consultation with His Majesty's Government in Australia, and such other Empire countries as may be concerned, it will impose a duty of not less than one halfpenny per pound upon lamb, and of not less than one farthing per pound upon mutton and beef whether fresh, frozen or chilled and imported from foreign countries, this duty to be effective from a date to be agreed upon.

QUOTA FOR BEEF, MUTTON AND LAMB

It shall be permissible for His Majesty's Government in the United Kingdom to establish, as an alternative to the imposition of a duty on foreign beef, mutton and lamb, a quota system which shall prescribe annually the minimum amount to be imported from Empire countries.

FINANCIAL PROVISIONS

(This part to be a separate Agreement.)

In consideration of modifications which have been made in the Agreement of 1925 between the Governments of the

United Kingdom and the Commonwealth of Australia pursuant to the Empire Settlement Act of 1922, the Government of the United Kingdom undertakes to defray for periods in each case not exceeding ten years, one-third of the interest on capital raised for development purposes in Australia in approved cases, and where it appears that the enterprise cannot be immediately revenue producing. The total amount of interest to be borne at any one time by the Government of the United Kingdom during the period of this Agreement shall not exceed £250,000 per annum. Appropriate conditions shall be attached in respect of this payment of interest, to the effect that goods purchased out of the capital raised shall be of United Kingdom manufacture, where such goods are normally produced in the United Kingdom, and otherwise of Empire production, if available.

Having regard to the technical improvements which are needed in the beef industry of the Commonwealth of Australia, His Majesty's Government in the United Kingdom in consideration of the terms of this Agreement, undertakes for a period of five years to contribute one-third of the total sums expended for the purpose of research into methods of improving the cattle-growing industry of Australia and for restocking its herds with more suitable types of cattle, and for conducting experiments into the methods of shipment into the United Kingdom. Such annual contribution by His Majesty's Government in the United Kingdom shall not exceed the sum of £150,000. The administration of this sum shall be controlled by mutual agreement between the two Governments.

His Majesty's Government in the United Kingdom shall, for a period of five years, contribute one-third of the expenditure on research made for the purpose of improving the production of butter in Australia and for improving the method of transporting butter from Australia to the United Kingdom. Such annual expenditure by His Majesty's Government in the United Kingdom shall not exceed the sum of £100,000.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into Australia if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem* or half of the duty (whichever may be the greater) will be accorded, if of United Kingdom origin imported into Australia.

Lists to be agreed.

APPENDIX THREE

HEADS OF SUGGESTED TRADE AGREEMENT

BETWEEN

THE UNITED KINGDOM AND THE DOMINION OF NEW ZEALAND

The Agreement shall be for a period of ten years commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangements which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Government of New Zealand undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Government of New Zealand undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR NEW ZEALAND GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Butter - -	1½ pence per pound.
On all foreign Cheese - -	1½ pence per pound.
On all foreign Milk Powder, full Cream	2 pence per pound.
On all foreign Milk Powder, separated	1 penny per pound.
On all foreign Condensed Milk, sweeted or unsweetened	4 shillings per hundredweight in addition to any duty in respect of the sugar content.
On all foreign Casein - -	5 shillings per hundredweight.
On all foreign Apples - -	5 shillings per hundredweight.
On all foreign Hides and Skins	10 per cent *ad valorem*.[1]
On all foreign Unrefined Tallow, and Sausage Casings	10 per cent *ad valorem*.

All butter, cheese, milk powder (full cream or separated), casein, apples, hides and skins, unrefined tallow and sausage casings, being the produce of New Zealand imported into the United Kingdom shall be exempted from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement.

The New Zealand condensed milk shall be exempted from duty if unsweetened, and shall be exempted from an additional duty if sweetened, provided that the tins have been manufactured from tinplate produced in the United Kingdom.

DUTIES ON BEEF, MUTTON AND LAMB

His Majesty's Government in the United Kingdom agrees that, after consultation with His Majesty's Government in New Zealand, and such other Empire countries as may be concerned, it will impose a duty of not less than one halfpenny per pound upon lamb, and of not less than one farthing per pound upon mutton and beef, whether fresh, frozen or chilled and imported from foreign countries, this duty to be effective from a date to be agreed upon.

[1]But see page 187.

QUOTA FOR BEEF, MUTTON AND LAMB

It shall be permissible for His Majesty's Government in the United Kingdom to establish, as an alternative to the imposition of a duty on foreign beef, mutton and lamb, a quota system, which shall prescribe annually the minimum amount to be imported from Empire countries.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose or increase duties on similar New Zealand commodities, provided that the preference to the New Zealand products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose, other than the above, the duty on New Zealand products shall, in the case where there is no Excise duty, be not more than half the duty imposed on foreign products, and in those cases where there is an Excise duty the New Zealand preference shall be not less than half the difference between the Excise duty and the Customs duties.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into New Zealand, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem* or half of the duty (whichever may be the greater) will be accorded, if of United Kingdom origin imported into New Zealand.

Lists to be agreed.

APPENDIX FOUR

HEADS OF SUGGESTED TRADE AGREEMENT

BETWEEN

THE UNITED KINGDOM AND THE UNION OF SOUTH AFRICA

The Agreement shall be for a period of ten years, commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangements which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Government of the Union of South Africa undertakes to remove the Custom duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Government of the Union of South Africa undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preference of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR SOUTH AFRICAN GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Maize - -	6 pence per 100 pounds.
On all foreign Maize Meal -	7½ pence per 100 pounds.
On all foreign Dried Fruits -	10 shillings per hundredweight in place of existing duties on dried fruits.
On all foreign Fruit Juices, including Must and Syrups	6 pence per gallon, in addition to any duty in respect of the sugar content.
On all foreign Fruits preserved in syrup	5 shillings per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit Pulp preserved in syrup	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit preserved without sugar	5 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Fruit Pulp preserved without sugar	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Canned Fish -	10 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Poultry - -	2 pence per pound.
On all foreign Raw Pears -	8 shillings per hundredweight.
On all foreign Eggs - - -	2 shillings and 6 pence per great hundred (120 eggs).
On all foreign Hides and Skins	10 per cent *ad valorem*.[1]

All South African canned fish, and all South African fruit and fruit pulps preserved without sugar shall be exempted from duties of Customs, and all South African fruit preserved

[1]But see page 187.

in syrup, and South African fruit pulp preserved in syrup, shall be exempted from the additional duties stated, provided that the tins or bottles have been manufactured in the British Empire and, where tins are used, provided that the tinplate has been manufactured in the United Kingdom.

All maize, maize meal, dried fruits, fruit juices, raw pears, poultry, eggs, hides and skins, being the produce of the Union of South Africa imported into the United Kingdom, shall be exempt from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement.

On all foreign oranges and grape fruit imported into the United Kingdom from the month of May to the month of October, and including the said months in each year, Customs duties shall be imposed of five shillings per hundredweight, and oranges and grape fruit imported from the Union of South Africa shall be exempt from this Customs duty.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar South African commodities, provided that the preference to the South African products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in any changes it may make in the duties on wine, it will not diminish the monetary amount of the existing difference between the ordinary rates of duty and the preferential rates of duty in favour of South African wine; and it also undertakes to increase the monetary amount of the preference in favour of South African sugar by one shilling per hundredweight on sugar of 96 per cent polarity, with corresponding adjustments to the present United Kingdom Customs scale of polarisation.

The United Kingdom undertakes to increase the preference given to South African tobacco to one-third of the duty upon foreign tobacco in place of the present preference of one-fourth of the duty on foreign tobacco.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose, other than the above, such duties, when imposed on South African products, shall, in a case where there is no Excise duty, be not more than half the duty imposed on foreign products, and in those cases where there is an Excise duty the South African preference shall be not less than half of the difference between the Excise duty and the Customs duty.

DUTY ON BEEF

His Majesty's Government in the United Kingdom agrees that, after consultation with His Majesty's Government in the Union of South Africa, and such other Empire countries as may be concerned, it will impose a duty of not less than one farthing per pound upon beef, whether fresh, frozen or chilled, and imported from foreign countries, this duty to be effective from a date to be agreed upon.

QUOTA FOR BEEF

It shall be permissible for His Majesty's Government in the United Kingdom to establish, as an alternative to the imposition of a duty on foreign beef, a quota system which shall prescribe annually the minimum amount to be imported from Empire countries.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into the Union of South Africa, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem* or half of the duty (whichever may be the greater) will be accorded, if of United Kingdom origin, imported into the Union of South Africa.

Lists to be agreed.

APPENDIX FIVE

HEADS OF SUGGESTED TRADE AGREEMENT BETWEEN THE UNITED KINGDOM AND THE IRISH FREE STATE

The Agreement shall be for a period of ten years, commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangement which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCE ON BRITISH MANUFACTURED GOODS

The Government of the Irish Free State undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture, which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem.*

The Government of the Irish Free State undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR IRISH FREE STATE GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Butter - -	$1\frac{1}{2}$ pence per pound.
On all foreign Cream - -	2 pence per pound.
On all foreign Eggs - - -	2 shillings and 6 pence per great hundred (120 eggs).
On all foreign Milk Powder, full cream	2 pence per pound.
On all foreign Milk Powder, separated	1 penny per pound.
On all foreign Condensed Milk, sweetened or unsweetened	4 shillings per hundredweight in addition to any duty in respect of the sugar content.
On all foreign Poultry - -	2 pence per pound.
On all foreign fresh, chilled or frozen Salmon	3 pence per pound.
On all other foreign Fish, whether fresh, cured, salted, chilled or frozen	1 penny per pound.
On all foreign Bacon - -	1 penny per pound.
On all foreign Ham - -	1 penny per pound.
On all foreign Oats - - -	1 shilling per hundredweight.
On all foreign Oatmeal and other Oat products	1 shilling and 6 pence per hundredweight.
On all foreign Hides and Skins	10 per cent *ad valorem*.[1]

The Irish Free State condensed milk shall be exempted from duty if unsweetened, and shall be exempted from an additional duty if sweetened, provided that the tins have been manufactured from tinplate produced in the United Kingdom.

All the other articles enumerated in the above Schedule, when the produce of the Irish Free State, imported into the United Kingdom shall be exempted from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar Irish Free State commodities, provided that the pre-

[1]But see page 187.

ference to the Irish Free State products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose other than the above, the duty on Irish Free State products shall, in the case where there is no Excise duty, be not more than half of the duty imposed on foreign products, and in those cases where there is an Excise duty, the Irish Free State preference shall be not less than half of the difference between the Excise duty and the Customs duties.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into the Irish Free State, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem*, or half of the duty (whichever may be the greater) will be accorded, if of United Kingdom origin imported into the Irish Free State.

Lists to be agreed.

APPENDIX SIX

HEADS OF SUGGESTED TRADE AGREEMENT

BETWEEN

THE UNITED KINGDOM AND THE DOMINION OF NEWFOUNDLAND

The Agreement shall be for a period of ten years, commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangements which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Government of Newfoundland undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Government of Newfoundland undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preference of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR NEWFOUNDLAND GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign cured or salted Fish	1 penny per pound.
On all foreign fresh, chilled or frozen Salmon	3 pence per pound.
On all other foreign Fish, whether fresh, chilled or frozen	1 penny per pound.
On all foreign Canned Fish -	10 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Fish Oils - -	20 per cent *ad valorem.*
On all foreign Hides and Skins (including Furs)	10 per cent *ad valorem.*[1]
On all foreign Newsprint -	2 shillings per hundredweight.

All cured or salted cod, salmon, canned fish, fish oils, hides and skins (including furs) and newsprint, being the produce of Newfoundland imported into the United Kingdom, shall be exempted from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement. Newfoundland canned fish shall, however, be so exempted only provided that the tinplate has been manufactured in the United Kingdom.

In the application of the tariff schedule, the term 'foreign' fish shall not be applicable to fish caught by British vessels in any waters, but shall be applicable to fish caught by foreign vessels in British waters.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar Newfoundland commodities, provided that the preference to the Newfoundland products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose

[1] But see p. 187.

other than the above, the duty on Newfoundland products shall in the case where there is no Excise duty be not more than half of the duty imposed on foreign products, and in those cases where there is an Excise duty, the Newfoundland preference shall be not less than half of the difference between the Excise duty and the Customs duties.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into the Government of Newfoundland, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem* or half of the duty (whichever may be the greater) will be accorded if of United Kingdom origin imported into Newfoundland.

Lists to be agreed.

APPENDIX SEVEN

HEADS OF SUGGESTED TRADE AGREEMENT

BETWEEN

THE GOVERNMENT OF THE UNITED KINGDOM AND THE GOVERNMENT OF INDIA

The Agreement shall be for a period of ten years, commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangements which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Government of India undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem.*

The Government of India undertakes in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR INDIAN GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Tea - - -	1 penny per pound.
On all foreign Maize - -	6 pence per 100 pounds.
On all foreign Maize Meal -	$7\frac{1}{2}$ pence per 100 pounds.
On all foreign Barley - -	2 shillings per hundredweight.
On all foreign Rice, whole or broken	3 shillings per 100 pounds.
On all foreign Rice Flour, Meal and Dust	1 shilling and 6 pence per 100 pounds.
On all foreign Peas and Beans (not fresh) and Lentils	20 per cent *ad valorem.*[1]
On all foreign Spices (*i.e.* Pepper, Ginger, Cinnamon, Cloves and other sorts)	20 per cent *ad valorem.*[1]
On all foreign Hides and Skins	10 per cent *ad valorem.*[2]
On all foreign Isinglass - -	20 per cent *ad valorem.*[1]
On all foreign Fibres for brush-making	20 per cent *ad valorem.*[1]
On all foreign Kapok - -	20 shillings per hundredweight.
On all foreign Piece Goods, Sacks and Bags, and other made-up Goods of Jute (excluding Carpets and Rugs)	20 per cent *ad valorem.*
On all foreign Coir Fibre, Yarn, Mats and Matting, and other Manufactures	20 per cent *ad valorem.*
On all foreign Seeds and Nuts for expressing Oil as follows, viz. Castor Seed, Linseed, Rapeseed, Sesame, Groundnuts	1 pound per ton.
On all foreign Oilseed Cake and Meal as follows, viz. Groundnut Cake and Meal, Linseed Cake and Meal	10 per cent *ad valorem.*[1]
On all foreign Vegetable Oils, refined or unrefined	25 per cent *ad valorem.*[1]

The duty on foreign coffee shall be maintained at the existing rate.

All the commodities specified above, being the produce of

[1]Or an equivalent specific duty.

[2]But see p. 187.

India imported into the United Kingdom, shall be free from duties of Customs, while the duties upon these commodities from foreign countries are maintained at the rates provided in this Agreement.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar Indian commodities, provided that the preference to the Indian products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose, other than the above, such duties, when imposed on Indian products, shall in a case where there is no Excise duty, be not more than half the duty imposed on foreign products, and in those cases where there is an Excise duty the Indian preference shall be not less than half of the difference between the Excise duty and the Customs duty.

MILLING QUOTA FOR WHEAT

His Majesty's Government in the United Kingdom agrees that at the beginning of each cereal year it will, by Order in Council, after consultation with the Government of India and with the other Empire countries concerned, prescribe the minimum percentages of imported Empire and home-grown wheat respectively, which shall be converted into flour in mills in the United Kingdom. Provided that harvest conditions in the Empire permit of it, these percentages shall be increased each year up to such maxima as may eventually be agreed upon. Subject to suitable arrangements with the milling industry, the administration to ensure the observance of the Order in Council shall be undertaken by the milling industry.

IMPORT OF FLOUR

His Majesty's Government in the United Kingdom shall take powers to enable them to prohibit, if necessary, the im-

portation of flour into the United Kingdom, and under such powers shall be enabled to grant open licences for the importation of flour produced in any Empire country.

DRAFT SCHEDULES

1.—Articles to be imported free of duty into India, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem*, or half of the duty (whichever may be the greater) will be accorded, if of United Kingdom origin imported into India.

Lists to be agreed.

PART FOUR

THE ECONOMIC SITUATION OF THE BRITISH COLONIAL EMPIRE

PART FOUR

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THE ECONOMIC SITUATION OF THE BRITISH COLONIAL EMPIRE

FOREWORD

THE FOLLOWING Report, prepared by the staff of the Research Committee of the Empire Economic Union in the summer of 1931, affords a compendious summary of the present economic situation of the British Colonial Empire, more particularly in Africa, and of some of the political obstacles which, for the time being at any rate, stand in the way of the full development of Imperial Preference with a great part of its territories. It does not, of course, attempt to enter upon the problem of the development of that Empire in all its aspects. That problem, in the main one of transport, of agricultural research, of health, of native education, is one of the most important, as it is one of the most fascinating, that has ever called for the highest administrative ability of our people, at home and on the spot. To do it justice would require a study of a very different character to that which has engaged the attention of the Empire Economic Union. Our object, in preparing this Report, was the more limited one of providing a picture of the Colonial Empire as an economic entity sufficient to indicate in what way it could fit in to the general framework of a policy of inter-Imperial trade, and what difficulties have still to be surmounted to give full effect to that purpose.

L. S. A.

January, 1932.

INTRODUCTION

The Preliminary General Report of the Research Committee, which was published in September, 1930, immediately prior to the Imperial Conference, was devoted, in the main, to a consideration of the inter-Imperial economic problems likely to be considered by the Conference, and, accordingly, it examined principally the economic relationship between the United Kingdom, on the one hand, and the self-governing Dominions and India on the other hand, and no extended references were made to the relationship of the United Kingdom to what may perhaps, for convenience be compendiously described as the British Colonial Empire; that is to say, the Crown Colonies; the Protectorates; the Mandated Territories and Anglo-Egyptian Sudan. (The Mandated Territories included in this reference exclude those the mandates for which are held by British Dominions.) The Anglo-Egyptian Sudan is not in the ordinary constitutional sense part of the Colonial Empire, because it is a condominium of the United Kingdom and Egypt, and the responsibility for it in the United Kingdom rests with the Foreign Office, and not with the Colonial Office.

While it is evident that the future economic development of the British Empire must be largely dominated by the Trade Agreements likely to be entered into between the United Kingdom, the self-governing Dominions and India, nevertheless it must be realised that the Colonial Empire is of vast importance and possessed of potentialities only dimly realised at the moment. The Colonial Empire, as defined above, covers 3,330,000 square miles, with a population of approximately 62 millions. This area is greater than that of the United States of America, while the population is more than double that of the whole of the self-governing Dominions.

By far the greater part of the British Colonial Empire is situated in Africa, in which Continent its area totals 2,930,000 square miles, with a population of 46 millions. The Colonial Empire in Africa consists of two parts: four Colonies on the

west coast, separated from one another by the Colonies of other European nations, and the larger territory of Central and Eastern Africa, consisting of an unbroken territory comprising 2,440,000 square miles, much of which is as yet very thinly populated, for the whole population of that vast area is less than 23 millions. Included in the gigantic territories in Central and Eastern Africa there are important areas climatically suitable for white settlement.

The Colonial Empire contains not less than fifty-four separate constitutional areas, though not quite so many distinct governments, owing to the fact that in some cases the same administrative machinery is responsible for a group of constitutional areas. The forms of government range from a military autocracy at Gibraltar to almost complete internal self-government in Southern Rhodesia, with almost every conceivable intermediate constitutional form.

The following table indicates the magnitude of the trade relationships of the United Kingdom with the Colonial Empire:

	EXPORTS OF BRITISH GOODS FROM U.K. TO THE COLONIES	TOTAL IMPORTS INTO THE U.K. FROM THE COLONIES
1913 - -	£31,517,000	£38,944,000
1920 - -	135,063,000	183,146,000
1925 - -	58,477,000	78,956,000
1929 - -	62,417,000	71,297,000
1930 - -	51,309,000	54,682,000

The heavy decline between 1920 and 1925 reflects the sudden collapse in world prices of commodities which occurred mainly in 1921. While the further decline between 1929 and 1930 reflects the more recent collapse in prices, there is no doubt that in actual volume our trade with the Colonies has been showing a reasonably satisfactory measure of expansion. These figures exclude trade with Iraq, because, for reasons explained later, the constitutional position of that country is unique, and it is not in any sense a part of our Colonial Empire.

It is interesting to contrast United Kingdom trade in the year 1930 with the Colonies and with India, respectively. The figures are as follows:

	THE COLONIES	INDIA
Imports into U.K. - - -	£54,682,000	£51,058,000
Exports of U.K. Goods - -	51,309,000	52,944,000
Re-exports from U.K. - - -	2,728,000	1,314,000
Total Trade - - - -	£108,719,000	£105,316,000

It will be seen that our total trade with the Colonies was greater than that with India. 1930 is the first year in which this has happened. This is, indeed, a remarkable state of affairs, when it is remembered that the population of India is more than five times as great as the population of the Colonial Empire. On the other hand, it must be remembered that a boycott, due to political reasons, seriously reduced our trade with India in 1930.

In our Preliminary General Report, the method for the development of economic relationships between the United Kingdom and the Dominions and India which was recommended was that of the trade agreement, for clearly in dealing with those countries that are entirely fiscally self-governing, that was the obvious and natural method of development. When, however, we come to consider the position of the Crown Colonies, a different situation arises because of the difference in constitutional status.

Certain of the Crown Colonies have long possessed, and some have recently obtained, a high degree of fiscal autonomy; while others are still largely under the control of the Colonial Office, although that control is exercised through the respective Governors, and in consultation, in appropriate cases, with such constitutional authorities as may exist. Again, in the case of most of the Colonies, Protectorates and Mandated Territories in Africa their fiscal freedom is restricted by international treaties, while in the case of British Malaya, the fact that its principal ports are the clearing-houses for the trade of adjacent countries, makes difficult the institution of preferential arrangements.

On the other hand, there is no reason why the form of trade agreement recommended for the Dominions should not equally apply to certain of the Crown Colonies, notably those

in the West Indies, Ceylon and Mauritius, and there will be found appended to this Report suggested drafts of trade agreements. In this connection, it is important to remember that the Dominion of Canada has already made trade agreements with the Colonies in the West Indian area.

TREATY HINDRANCES

In the previous section, reference was made to certain international restrictions on the fiscal freedom of our Colonies in Africa. This matter is of such importance that it is necessary for us to deal with it at considerable length. The territories of British Togoland, the British Cameroons and Tanganyika Territory are held by the United Kingdom under mandates from the League of Nations. The mandates in respect of these territories are known as Class 'B' mandates, which contain a commercial equality clause of which a specimen is set out below, requiring the Governments of the three territories to extend to other States which are members of the League of Nations the same fiscal treatment as is extended to the United Kingdom. On the other hand, these mandates do not prevent the United Kingdom from granting fiscal preferences in respect of the products of these three territories without being obliged under most-favoured-nation clauses of treaties to grant them to foreign countries.

The mandate for South-West Africa, formerly German South-West Africa, is held by the Union of South Africa under Class 'C' mandate, under the provisions of which the territory is regarded as being fiscally an integral part of the Union of South Africa, and accordingly any preferences to British goods granted by the Union of South Africa are equally granted by South-West Africa. Similarly, the territory of New Guinea, which is mandated to the Commonwealth of Australia, the territory of Western Samoa, which is mandated to the Dominion of New Zealand, and the territory of Nauru, mandated jointly to the United Kingdom, Australia and New Zealand, are all held under Class 'C' mandates. The history of the Class 'C' mandates arises from the fact that at the

Peace Conference in Paris in 1919, the Dominions were strongly opposed to the 'open-door' provision of the Class 'B' mandates, and were not prepared to assent to the mandatory principle unless the territories mandated to them were held under conditions different from those specified in the Class 'B' mandates. Under the Class 'C' mandates the territories in question are declared as being 'under the laws of the Mandatory as integral portions of their territory'.

On the other hand, in the Class 'B' mandates there appears the following Commercial Equality Clause:

'The Mandatory shall secure to all nationals of States Members of the League of Nations the same rights as are enjoyed in the territory by his own nationals in respect to entry into and residence in the territory, the protection afforded to their person and property, movable and immovable, and the exercise of their profession or trade, subject only to the requirements of public order, and on condition of compliance with the local law.

'Further, the Mandatory shall ensure to all nationals of States Members of the League of Nations, on the same footing as to his own nationals, freedom of transit and navigation, and complete economic, commercial, and industrial equality; except that the Mandatory shall be free to organise essential public works and services on such terms and conditions as he thinks just.'

Certain parts of the pre-war German territories in Africa were mandated to France, Belgium and Portugal, and, like the British territories so mandated, are all held under Class 'B' mandates.

Iraq and Palestine occupy a different position. Palestine and Trans-Jordania are held by Great Britain under a Class 'A' mandate, which contemplates that ultimately Palestine shall become a Sovereign Independent State. The Palestine mandate contains a commercial-equality clause on lines generally similar to those of the 'B' mandates, and therefore, like the 'B' mandated territories, Palestine is debarred from according fiscal preference to British goods. It has been thought, moreover, in the case of Palestine (unlike the 'B' mandated territories), that it would not be possible for the United Kingdom to grant preference to Palestine without being obliged to grant such preference to foreign countries. The United Kingdom has so far, in respect of its own preferential tariff, treated

Palestine as if it were a foreign country, and accordingly no preferences are granted by the United Kingdom to Palestinian goods.

This decision of the United Kingdom arises from the fact that as Palestine has been regarded as occupying the status of a foreign country in trade matters, our commercial treaties—containing as they do the most-favoured-nation clause—debar us from preferential treatment of Palestinian goods. On the other hand, there seems to be no reason why the United Kingdom should continue to impose upon itself this self-denying ordinance, because it is perfectly clear at the moment that Palestine does not in effect occupy the status of a foreign country.

The position with regard to Iraq differs from that of Palestine because, although Iraq is in certain respects treated as if a Class 'A' mandate had been issued in respect of that country, in fact no actual mandate for Iraq was ever issued. In substitution for the mandate the Anglo-Iraq Treaties of 1922 and 1926 were concluded which created a special relationship under which the King of Iraq agreed to be guided by the advice of the British High Commissioner in regard to certain matters. The Anglo-Iraq Treaties, which imposed certain obligations and responsibilities on the United Kingdom with regard to Iraq, were accepted by the League of Nations for, and in place of, a mandate. The Anglo-Iraq Treaty of 1922 contains in Article 11 a commercial-equality provision whose general lines are similar to the corresponding provisions in the mandates. For all trade purposes Iraq is treated as if it were a foreign country.

The East African Situation

With the above preliminary notes on Treaty Hindrances we now turn to an examination of the complicated situation which exists in Africa. In the introduction we referred to the status of the Sudan as that of a condominium, that is to say, the Government of the Sudan is jointly responsible to those of the United Kingdom and Egypt. For Customs purposes the Sudan and Egypt constitute a Customs Union, and accordingly any development of preferential arrangements between the Sudan and the United Kingdom must necessarily include Egypt.

Egypt was recognised by the Declaration of February 28, 1922, as an Independent Sovereign State, and must, therefore, be regarded as a foreign country. So far as our commercial treaties are concerned, therefore, the most-favoured-nation clause prohibits our extending privileges to Egyptian goods. It appears then that the development of preferential relationships with the Sudan involves preferential relationships with Egypt, and this, in turn, involves a change in the whole of our system of most-favoured-nation treaties, and would seem to indicate the desirability of a change from the present system to one in which we should be free to grant preferences to those countries with which we have special constitutional or commercial relationships.

The bulk of the remainder of the British Colonial Empire in Africa is at the moment debarred from granting any fiscal preferences as a consequence of certain international agreements which it is necessary to describe in some detail.

St. Germain-en-Laye Convention.

The most important of these agreements is the Convention of St. Germain-en-Laye, which, with its predecessors, is known by the general title of the Congo Basin Treaties. This Convention was concluded in September of 1919, and the ratifications were deposited at various dates during 1920 and onwards. This Convention provided that the signatory powers were to reassemble at the expiration of ten years after its coming into force in order to introduce such modifications as experience may have shown to be necessary. The position now is that the powers can be reassembled at any time for this purpose.

Berlin and Brussels Acts.

This Convention was a sequel to the Berlin Act of 1885 and the Brussels Act of 1890, which were drawn up by the signatory powers for the purpose of equalising opportunities in the undeveloped parts of Africa, and also for the purpose of protecting the legitimate interests of the native inhabitants. The area covered by the St. Germain-en-Laye Convention is precisely the same as that laid down by the Berlin Act and, owing to the developments which have taken place in Africa since 1885, it happens that the area of the Berlin Act does not follow frontiers, and accordingly there are certain British Col-

onies partly covered by the scope of the Convention and partly outside its scope, and the same is true of the Colonies held by some of the other European powers.

The Berlin Act, in addition to providing for freedom of navigation and freedom of trade and for a variety of humanitarian restrictions, also prohibited the imposition of any Customs duties in the territories defined by the Act. By the Brussels Act of 1890, however, power was given to impose Customs duties, but subject to the limitations that there should be no differential treatment in the Customs duties of any territory in favour of one or more signatories as against the remaining signatories. The Brussels Act continued the restrictions that no duties should be levied on goods passing through any territory in bond. No provision was made for terminating either the Berlin Act or the Brussels Act.

Both Germany and Austria were signatories to these Acts and the Great War terminated them as between Germany and Austria on the one hand and those of the Allied Powers, namely Great Britain, Belgium, France, Italy, Portugal and Russia on the other hand, who had been signatories to these Acts. The United States of America signed both the Acts, but did not ratify them, and, therefore, was not a party to them. Both Acts were ratified by Denmark, Spain, the Netherlands, Norway and Sweden, and as none of these powers were involved in the Great War, the Acts remained binding as between them and the Allied Powers and also as between them and the Central Powers (as well, of course, as between members of these two groups amongst themselves). None of these powers have any Colonial possessions within the area defined by the Acts, and equally they have no responsibilities for the enforcement of the Acts, but they enjoy the privileges of equality which the Acts confer. The Acts themselves contained no provision for their denunciation.

The Convention of St. Germain-en-Laye abrogated the Berlin and Brussels Acts on the part of the signatories to the Convention who ratified it; that is to say, Great Britain, Belgium, France, Japan and Portugal. The United States of America and Italy, who signed, did not ratify. It is clear that Great

Britain, Belgium, France, Japan and Portugal are now free to modify the Convention of St. Germain-en-Laye as between themselves, but it would be a matter for the international lawyers to decide whether those five countries remain under any obligation to Italy, Denmark, Spain, the Netherlands, Norway and Sweden.

As indicated above, the Convention, though not providing clearly for a power of denunciation, does provide specifically for the possibility of reconsideration, and it would seem reasonable to suggest that on any reassembly of the signatory powers for the purpose of its reconsideration, any one of those powers would be free to demand its right to be relieved of all obligations and advantages under the Convention; or, alternatively, only assent to its continuation subject to a limitation of the rights and obligations under the Convention; but this again is a matter for international law. At the moment it is understood that the signatory powers have exchanged views, and that it is probable that the Convention may be continued for a further period of five years, making a total of fifteen years from the date, as yet not clearly defined, when the Convention is presumed to have come into operation. From all the investigations we have made, we take the view that at the moment the initial ten years for which Great Britain was bound have expired, and that accordingly she can now denounce the Convention.

There is, however, only one clause in the Convention from which Great Britain is likely to desire to free herself, namely, that which restricts her Colonial possessions within the Congo Basin area from granting fiscal preferences to goods from other parts of the British Empire; and, therefore, if Great Britain did denounce the Convention it would be primarily with a view to a new Convention covering all the existing points other than those relating to fiscal preferences, and, of course, such other additions or modifications of lesser importance which the experience of the last ten years may have shown to be necessary. The fact that the Convention provides for the suppression of slavery, freedom of conscience, free expression of all forms of religion, and the usual freedom of

navigation and travel for the purpose of trade, show the importance of continuing the Convention as a whole, even though it may be desired that Great Britain should free herself of the restrictions on fiscal preferences.

It would, however, in any event be desirable that the zone to which the Convention applies should be redefined, so that its boundaries follow the frontiers of the various territories instead of cutting right across certain of them as at present. On the other hand, in connection with any rearrangement of boundaries, it is a matter for consideration whether this provision should apply for commercial purposes only or for all purposes; probably it would be desirable that the provision should only apply for commercial purposes, and the humanitarian provisions should apply for the whole of the original area.

It is conceivable that if we sought to get rid of the fiscal restrictions we might receive the support of Belgium, France, Portugal and Italy, all of whom have territories in the zone, and, therefore, in certain respects might gain by fiscal freedom; while, on the other hand, we might be opposed by the other signatories to the Berlin Act who benefit from the Convention at no cost to themselves. Against this it might reasonably be urged that no agreement is effectively binding which imposes obligations on certain parties to it without consideration. What is certain is the uncertainty of the whole position, and at the moment we can only urge that the international legal aspect of the whole question should be thoroughly explored by the governments of the day. It must be remembered that the situation is further complicated by the fact that the territory previously known as German East Africa is now held in the main by Great Britain, and as to smaller parts by Belgium and Portugal, as mandatories from the League of Nations under Class 'B' mandates.

Even if the restrictions from fiscal preferences were removed from the Convention, Great Britain would still be restricted in respect of Tanganyika Territory, and Belgium and Portugal in respect of their mandated territories, from granting fiscal preferences to British, Belgian and Portuguese goods in the respective territories.

Present Trade Situation.

We now pass to an examination of the facts of the trade situation in the area covered by the Convention. Apart from the question of international law which we have considered, it is necessary to examine the question as to whether or not it would be advantageous to change the existing position, and the best way to examine this aspect of the question is to study the existing distribution of trade of the territories that are covered by the Congo Basin Treaties. The following tables show the imports into the territories concerned, which in the case of the British territories comprise Kenya, Uganda, Tanganyika Territory, Nyasaland and Zanzibar.

Geographical Distribution of the Sources of the Imports in 1929 into the Territories covered by the Congo Basin Treaties

British Territories.	
From foreign countries	£6,257,000
,, United Kingdom	6,190,000
,, Other Empire countries	3,929,000
	£16,376,000
Belgian Congo.	
From Belgium	£5,750,000
,, United Kingdom	1,130,000
,, Other British countries	1,010,000
,, Other foreign countries	5,320,000
	£13,210,000
Italian East Africa.	
From Italy	£1,720,000
,, United Kingdom	28,000
,, Other British countries	85,000
,, Other foreign countries	1,957,000
	£3,790,000
Portuguese East Africa.	
From Portugal	£890,000
,, United Kingdom and other British countries	2,058,000
,, Other foreign countries	1,676,000
	£4,624,000

In interpreting these tables it must be borne in mind that a considerable portion of Portuguese Africa and Italian Somaliland are outside the Congo Basin area, and in connection with Portuguese East Africa it is important to note that both the principal ports, namely, Lourenço Marques and Beira, are outside the area. On the other hand, the British territories falling within the area include small parts of Rhodesia and of the Anglo-Egyptian Sudan. Subject to these qualifications, the figures indicate, generally speaking, that the United Kingdom does not appear to share in Belgian Congo and Italian Somaliland the same degree of equality of opportunity as is accorded to foreign trade in the British territories, but, on the other hand, in Portuguese East Africa at first sight our position appears to be a very satisfactory one.

The position, however, in respect of imports into Portuguese East Africa is a somewhat peculiar one. The bulk of the imports consists of goods landed at Lourenço Marques or Beira, and a considerable portion of the imports through these ports are not intended for consumption in Portuguese East Africa, but are passing through that territory to the Union of South Africa, the Rhodesias, and to British territories within the Congo Basin area. Where it is known that the goods are definitely in transit through Portuguese East Africa, there is a small transit tax charged which, in effect, is the same as a small import duty. On the other hand, if at the time of unloading at the Portuguese ports the ultimate destinations are unknown, Customs duties are imposed, and it is not believed in general that there is any rebate or drawback in respect of these Customs duties should the goods subsequently pass either into Portuguese or other territory within the Congo Basin area.

It will be seen that British trade shows to the worst advantage in the Belgian Congo, and that Belgium enjoys in that territory a rather larger percentage of the trade than the United Kingdom enjoys in the British territories concerned. If the whole of the restrictions on fiscal preference throughout the whole area were abolished, there is a larger volume of

foreign trade to the British Colonies that the United Kingdom might obtain than the volume of trade she would be in danger of losing in the foreign Colonies. On the other hand, we must bear in mind that, so long as the Tanganyika Territory mandate remains in its present form, the advantages which otherwise might accrue from the discontinuance of the Congo Basin Treaty are very much diminished.

Existing Imperial Preferences.

It is important at this stage to consider the extent to which the United Kingdom is likely to gain by an extension of the preferences which it already grants in respect of imports from these territories. Great Britain introduced Imperial preference in respect of existing duties in the Budget of 1919. By the Budget of 1925 the preferences were materially extended in many cases, and partly by that Budget and the Budget of 1926 the rates of preference were stabilised for a period of ten years. The increases in the preference made in 1925 had a very marked effect indeed in stimulating the importation into the United Kingdom of the Empire products concerned. The commodities affected which are of particular interest to the British Colonial Empire in Africa are coffee, tobacco and cocoa.

The imports of tobacco from Nyasaland increased from 6,883,000 lbs. in 1924 to 12,823,000 lbs. in 1930, while the imports of coffee from British East Africa as a whole increased from 19,376,000 lbs. in 1924 to 36,512,000 lbs. in 1930. These figures make it perfectly clear that, so far as these two commodities are concerned, our preference must have had the effect of substantially enhancing the prosperity of the countries in which the commodities were produced and, therefore, in turn this would increase the purchasing power for imported goods. Though as yet these territories only absorb a small proportion of the total of British exports, nevertheless the position is one which is showing rapid improvement and the exports of British goods to the territories increased from £3,663,000 in 1924 to £4,311,000 in 1930. This increase is all the more remarkable when it is remembered that the year 1930 was a period of acute depression and that the exports of British goods during that year were 29 per cent below their level in 1924. Accordingly, as a percentage of our total trade,

our exports to the British Colonies in the Congo Basin area increased by 75 per cent in the six-year period.

These figures would appear to indicate that, in the case of these territories, there is a strong argument for the United Kingdom adopting a policy of granting preferences, even though at the moment the territories cannot reciprocate and, in fact, may not be able to reciprocate for any substantial period of time, if at all.

West African Situation.

We now come to consider the substantially different problem which exists in the West African Group of Colonies, namely, Nigeria, the Gold Coast, Sierra Leone and Gambia. Associated with Nigeria for purposes of administration is the mandated territory of British Cameroons, which is held by the United Kingdom under a Class 'B' mandate, and similarly associated with the Gold Coast is the mandated territory of British Togoland, also under a Class 'B' mandate. The remainder of these former German Colonies are held by France under Class 'B' mandates.

So far as Gambia and Sierra Leone are concerned, there are no international agreements restricting their fiscal freedom, and there is no reason why arrangements should not be made for the mutual extension of appropriate trade preferences between these Colonies and the United Kingdom and other parts of the Empire.

Anglo-French Convention.

In respect of Nigeria and the Gold Coast, however, the situation is entirely different. A Convention was concluded between the United Kingdom and France for the delimitation of their respective possessions to the west and east of the Niger on June 14, 1898, which was ratified on June 13, 1899. This Convention was originally operative for a period of thirty years, and thereafter it appears to continue subject to twelve months' notice of denunciation. The Convention provides for equality of commercial treatment as between the signatories, the pertinent Article being No. IX, reading as follows:

'British subjects and British protected persons and French citizens and French protected persons, as far as regards their persons and goods, and the merchandise the produce or the manufac-

ture of Great Britain and France, their respective Colonies, possessions and Protectorates, shall enjoy for thirty years from the date of the exchange of the ratifications of the Convention mentioned in Article V the same treatment in all matters of river navigation, of commerce, and of Tariff and Fiscal Treatment and of taxes of all kinds.'

The British possessions falling within the scope of this Convention are Nigeria and the Gold Coast, and the French possessions are the Ivory Coast, Dahomey and part of the French Sudan.

It is interesting to compare the volume of French imports into the British territories covered by the agreement with the volume of British imports into the French territories. The latest available figures for both countries refer to 1929.

Imports into Nigeria and Gold Coast in 1929

From United Kingdom - - - -	£14,990,000
,, France - - - - - -	730,000
,, French possessions - - -	90,000
,, other foreign countries - - -	7,660,000
	£23,470,000

British exports to French West and Equatorial Africa (including areas not covered by the Convention in 1929) were £2,130,000. These figures would appear to indicate that the position as a whole is one not unsatisfactory to Great Britain and there is at first sight, accordingly, no apparent case on commercial grounds for a denunciation of the agreement. On the other hand, the agreement by itself only requires the British Colonies to accord similar treatment to French goods as to British goods, and *vice versa* in the case of the French Colonies, and neither group is, under the agreement, under any obligation to confer similar advantages to the goods of other countries.

The bulk of the existing treaties concluded by the United Kingdom contains, however, a most-favoured-nation clause, and in general the terms of this most-favoured-nation clause cover not only the United Kingdom itself but also its non-self-

governing possessions, and, therefore, so long as commercial treaties continue to exist in this form, the Gold Coast and Nigeria could not give a preference to British goods over foreign goods other than French goods. Nevertheless, it will be seen that other foreign nations were responsible for nearly one-third of the imports into Nigeria and the Gold Coast, and a very large proportion of these imports consists of classes of goods which could equally well be supplied by the United Kingdom. It would clearly be to our advantage if the Gold Coast and Nigeria were made free to grant a preference to British goods over foreign goods, other than those of France which, under the agreement, must continue to obtain the same advantage as British goods. The case is strengthened by the possibly important trade development which may take place between British West Africa and the Dominions.

On the other hand, if we decide to free ourselves from the present most-favoured-nation clause in our treaties in order that Nigeria and the Gold Coast might give us these preferences, it might be very desirable to suggest to France that that country should simultaneously take steps to free itself, so that it could accord jointly to British and French goods a preference over the goods of all other nations entering the French territories covered by the agreement. The imports of goods other than French and British goods into French West and Equatorial Africa in 1929 totalled £4,750,000, and under such an arrangement France and Britain would have an opportunity of capturing this trade in the same way that Britain and France would have the opportunity jointly of capturing the trade of £7,660,000 which other foreign countries secured in Nigeria and the Gold Coast in 1929.

In connection with this suggestion, however, one serious difficulty stands out, namely, the problem of the mandated territories of Togoland and Cameroons, the British and French portions of which could not participate in this joint preferential arrangement unless the Class 'B' mandates under which they are held were modified so as to take the form of the Class 'C' mandates under which, as mentioned above, the British Dominions and Japan hold certain territories.

Unreciprocated Preferences.

In any event, it is clear that a substantial period of time must elapse before any steps can be taken on the lines which we suggest are desirable and, in the meantime, it is a matter for consideration whether it would not be to the advantage of the United Kingdom to extend its range of unreciprocated preferences to British West Africa. The only important preference which we at present extend to British West Africa is that in respect of cocoa, and to-day we obtain nearly the whole of our supplies of cocoa from West Africa. There is no doubt at all that a great deal of the progress of the Gold Coast in particular is the result of the development of the cocoa industry, a development which has been substantially assisted since 1913 by our preference.

The exports of British goods to British West Africa increased from £10,512,000 in 1924 to £10,730,000 in 1930, despite the fact that the latter year was one of a severe depression in trade, and when goods were selling at a much lower cost. Though this trade is, like our trade with East Africa, only a small fraction of our total trade, nevertheless the increased percentage share is impressive. In 1924 1·32 per cent of our exports went to British West Africa, and in 1930 the percentage had grown to 1·88. From these figures it is perfectly clear that any extension in the prosperity of these territories will automatically reflect itself in a large increase in the exports of British goods to those Colonies, and it is obvious therefore, here, as in the case of East Africa, that there is a strong case for the extension of unreciprocated preferences.

THE PRODUCTS OF THE BRITISH COLONIAL EMPIRE IN AFRICA

Having reviewed the general position under the various international commitments which affect the different territories in Africa, and having established that for the moment reciprocal preferences are not possible, but that unreciprocated preferences on the part of the United Kingdom are certain to be of great value to the United Kingdom, it now be-

comes necessary to view the African position as a whole and to consider the lines of policy likely to be advantageous both to the United Kingdom and the British Colonial Empire in Africa.

The total imports into this territory, including those into the Anglo-Egyptian Sudan, in 1929 were £68,470,000, and the total exports were £65,870,000. Making appropriate allowances for the changes in prices, it would seem that the annual volume of trade with these countries in 1929 was approximately double the volume of trade in 1913. This makes it quite obvious that the growth of prosperity has been very rapid, and there is not the slighest doubt that as soon as the present world depression passes away this development will continue, and probably at an increasing rate. This rate of expansion will naturally be stimulated if the United Kingdom and the rest of the Empire take appropriate steps to accord to the African Colonial Empire an ever-growing market for its products which consist, naturally, in the main, of tropical primary products and certain minerals.

It must be borne in mind that the help that the United Kingdom can render to the British Colonial Empire in Africa is not to be measured merely by the amount of its primary products that we are at present obtaining from foreign sources, because, in addition, there is a natural tendency for a rapid growth in consumption in the temperate zones of many of these products of tropical zones. The larger the production in Africa of many of these tropical products the lower the cost at which they can be produced with consequent advantages to the consuming public in the United Kingdom. It is rather interesting to note the movements which have taken place in recent years in this direction. In the last twenty years the population of the world has increased by some 10 per cent, and the production of the normal staple foodstuffs, such as wheat, has increased to only a slightly greater extent, but the consumption of products which are tropical or mainly tropical throughout the world has increased to a very much more marked extent. For example, the consumption of coffee seems to have increased by 50 per cent in recent years. The

consumption of cocoa has trebled, and that of rubber has increased eight times, while the consumption of sugar, which is a product of both tropical and temperate zones, has practically doubled.

Of the £65,870,000 worth of goods exported from the British Colonial Empire in Africa in 1929, no less than £28,500,000 worth went to foreign countries, and to a substantial extent this represented an exportation of tropical products, many of which underwent a manufacturing process in foreign countries before being offered for sale to the ultimate consumer. The adoption by the United Kingdom of a general protective tariff in respect of manufactured goods would automatically lead to some of this trade being diverted and, as a probable natural consequence, would lead to some diversion in the trade of manufactures with Africa, and this is an important consideration when it is borne in mind that in 1929 the British Colonial Empire in Africa imported £25,100,000 of goods from foreign countries.

Following these introductory paragraphs on this aspect of the problem, we now proceed to a consideration of the various commodities of outstanding importance.

Cotton. In our Preliminary General Report attention was drawn to the fact that the production of raw cotton within the Empire is statistically equal to five-sixths of the Empire's consumption of raw cotton, but the Empire is both a large exporter of raw cotton and a very large importer of raw cotton owing to the fact that to a very large extent the grades the Empire produces are not the grades the Empire uses. Cotton is divided into two main types, known commercially as American and Egyptian, and is classified according to the length of the fibre or staple, the American being of short or medium staple, while the Egyptian is of long staple.

For a number of years extensive research work and experimental production has been carried on by the Empire Cotton Growing Corporation for the purpose of extending the quantity and improving the quality of the cotton grown within the British Empire. The Empire Cotton Growing Corporation is a semi-official body which received a capital grant of approxi-

mately £1 million from the British Government in 1921, and which receives annually the products of a small compulsory levy on each standard bale of cotton used by the spinners in the United Kingdom. The capital grant provided by the Government was not provided for out of taxation, but was really part of the surplus of the proceeds of the Cotton Control Board which controlled the sales of Egyptian cotton during the War, and, therefore, really represented part of the excess price paid by the industry for its raw material during the War-time period.

As a result of the work of the Corporation very notable progress has been made in developing cotton-growing within the Empire, but during the period 1921 to 1929 inclusive, out of imports of raw cotton averaging £80 millions annually, only £11 millions were derived from Empire countries. It is, however, a little interesting to note that during 1930, which was a year of great depression, and during which our imports of raw cotton were much reduced, the decline in importation was almost entirely in cotton drawn from non-Empire countries. One-sixth of our imports in that year in quantity came from Empire countries, and in value they represented over one-sixth of the total; so it will be seen that the quality of the Empire cotton imported is, on the average, higher than the foreign cotton imported.

Some of the most remarkable of the work of the Corporation has been done in Central Africa. Uganda, whose cotton production in 1904 was negligible, is now the most important cotton-producing area in Africa, with the solitary exception of Egypt; and during the last few years, as a result of the development of irrigation, very notable progress has taken place in the Anglo-Egyptian Sudan. At the present time the production of the latter is almost entirely of long-staple cotton and of the same classification as that received from Egypt. The largest imports into Lancashire are of American-type cotton of medium (under $1\frac{1}{4}''$) staple, the total volume of purchases in 1929 being 12,053,000 centals (cental = 100 lbs.) as against 3,344,000 centals of the Egyptian type of long (over $1\frac{1}{4}''$) staple. More than 8,000,000 centals of the medium staples

came from the United States of America, and it is, therefore, interesting to note that increasing quantities of this type of cotton are being produced in the Northern Provinces of the Sudan under irrigation, and as a rain crop on the upper reaches of the Nile. The possibility of extending the area producing cotton will be still further assisted by the new railway running from Port Sudan southward through Kassala. The areas tapped by this railway are only sparsely inhabited at present, but formerly they carried a large population and yielded considerable crops of grain and other produce. In addition to the annually increasing crop of short and medium staple cotton in Uganda and in Nigeria, this same type is grown in parts of Rhodesia and small quantities have been shipped to England. The Rhodesian Government, in conjunction with the Empire Cotton Growing Corporation, are making investigations into conditions of soil and the supply of necessary seed, in order to put the industry upon a sound basis.

At the present time all Lancashire's needs of short staple cotton could be supplied from Empire countries; while of that class of cotton known as Egyptian, Egypt itself can provide us with all our needs, and having regard to the peculiar relationship of Egypt to the British Empire no particular advantage would arise from stimulating within the Empire competition with Egypt's main product. Accordingly, it seems desirable that the main future efforts of the Cotton Growing Corporation and of the Governments of the various colonies, protectorates and mandated territories should be devoted to stimulating as far as possible the increased production within the Empire of medium-staple cotton, of which Lancashire is such a large consumer.

In this section of our report we are dealing with commodities in relation to their production in the British Colonial Empire in Africa, and we have therefore not included any comment on the important production of special qualities of cotton in the West Indies and one or two other parts of the Empire.

Reverting to the necessity of making special efforts to develop within the Empire the production of larger quantities

of medium-staple cotton, it is interesting to note what has happened in respect of much of the cotton being produced in East Africa. Of the production of East Africa, roughly one-half goes to India and nearly one-fifth to Japan, so that the results of the efforts of the Cotton Growing Corporation in that part of the Empire have been to secure that only about one-third of the local production comes to the United Kingdom. As a result of this export of raw cotton from East Africa to countries in Asia there has been built up a return trade in manufactured goods, so that Lancashire is not getting anything like a fair share of the trade in East Africa. An important economic reason for promoting this Imperial aim is that so long as the amount of the crop in America continues to dictate the world price of cotton as a whole, and so long as it remains so liable to crop failure and boll-weevil damage, the world price will be subject to considerable fluctuations, resulting, for example, in a repetition of the anomaly of American cotton being dearer than the superior Egyptian variety. It is also evident that in case of serious crop failure in America Lancashire might be unable to obtain supplies. Again, the Imperial aim referred to would result in a greater stability of the world price of cotton, for supplies would thus be drawn from many different parts of the globe, and it is unlikely that adverse climatic conditions would occur, or that diseases and insect pests would attack in all the regions in the same season.

It appears to be established that cotton should be grown as a rotational crop with, say, maize. In order to put the whole farming operation on an economic basis, it may be necessary to provide an assured or sheltered market outside the country for the maize crop if there is no local market. We have made certain proposals for the extension of preference in the United Kingdom to maize from cotton-growing colonies. It is to be noted that the cost of transport is one of the factors which determine the economic limits of such development in most cases.

Tobacco.

In our Preliminary General Report we recommend in the draft of our suggested agreement with the Union of South Africa that the preference given to South African tobacco

should be increased from the present figure of one-fourth of the duty to one-third of the full rate of duty upon foreign tobacco. We have studied various reports dealing with the history of the production of tobacco within the Empire and also the present marketing conditions, and we are satisfied that an extension of the margin of preference to all tobacco grown in the Crown Colonies would materially assist the further advancement of the industry. Prior to the War the importation of Empire tobacco into the United Kingdom was very small, but materially increased as a result of the first preference granted in 1919. The percentage of the total imports arriving from all Empire countries continued to progress and was: 6·2 per cent in the fiscal year 1922-23; 8·5 per cent in 1924-25; 13·5 per cent in 1926-27; 16·7 per cent in 1928-29; 16·4 per cent in 1929-30. The margin of preference was increased in the Budget of 1925 from one-sixth to one-quarter of the full rate, and the effect of this is shown in the above percentage figures of imports.

In the Finance Act of 1926 all the preferences then in being were stabilised at fixed specific, or *ad valorem*, rates irrespective of subsequent changes that might be made in the rates of duty on foreign goods, subject only to the condition that the duty on the foreign article continued at a rate in excess of the amount of the preference. Should the rate of the duty on the foreign article be less than the amount of the preference, then the Empire article, under the Finance Act of 1926, would come in duty free. Accordingly, when in 1927 the import duty on tobacco was increased, the same total addition was made on Empire tobacco as on foreign tobacco, so that the monetary amount of the preference remained unaltered, but the preference as a percentage of the total duty automatically became somewhat less. The real value of the preference to the tobacco-growing countries of the Empire may be estimated from the value of the total United Kingdom imports of unmanufactured tobacco in 1929, *i.e.* £18,498,000. Nyasaland, the Rhodesias, North Borneo and Cyprus are the Colonial countries exporting raw tobacco, and quantities are also received from Canada, India, and the Union of South Africa.

Both the Virginian and Turkish types of tobacco are grown in the African Colonies, the acreage under the former type being rapidly expanded. In order that the consumption of tobacco shall be met as largely as possible by Empire-grown supplies, it is essential that the acreage under production shall be kept up and increased annually and that the growers shall not find themselves in difficulty by reason of bad sales in any one season. If this is to be done successfully, some action is necessary which will lead to specialised-type production within well-defined areas, and it would appear to be advisable to establish a Central Tobacco Research Station for all Empire production.

In order to establish tobacco-growing in the British Empire as a progressive industry, it is essential for the grower to secure some return over the cost of production. Unfortunately, the present preference of approximately 2s. per pound, while it has served to encourage the purchase of Empire tobacco, has been of benefit almost exclusively to the manufacturer and consumer. So much has this been the case that sound Empire tobacco has been sold in the market at as low a price as 5d. a pound, on which the purchasing manufacturer has then received a rebate of 2s.! If any further preference is granted it should be definitely earmarked as a producer's preference and be added to the market price of Empire tobacco when withdrawn from bond, as is done in the case of Empire sugar. As an alternative, or possibly an addition to such a producer's preference, it may become necessary to establish some sort of quota system, in order to strengthen the Empire producer's position.

Beef.

The United Kingdom is, of course, a successful producer of fresh beef, but the quantity that we produce is far below our requirements, and it seems probable that in any event we shall need to import some 40 to 50 per cent of our total consumption. At the moment the main source of supply is the Argentine and some of the other South American Republics, which are sufficiently near to us to be able to send us beef in the chilled form. At present the beef that we obtain from Australia, the main Empire source of supply, has to come in the

frozen form. This problem of frozen beef, compared with chilled beef, is dealt with at some length in his book *Imperial Economic Unity*,[1] written by our former President, the late Lord Melchett, to which reference on this subject should be made.

Within the Colonial Empire the Rhodesias are probably the largest potential source of the supply of beef. They are sufficiently near to the United Kingdom to be able to send their beef in the chilled form, while, in addition, there are considerable possibilities of Rhodesian cattle being sent to the United Kingdom alive. The Southern Rhodesian Department of Agriculture is fully alive to the great possibilities, and there is every likelihood of a large increase of beef production in that country. As yet there have been practically no exports of dead meat from the Rhodesias to the United Kingdom, though considerable quantities have been supplied to certain southern European countries. It will be necessary for Rhodesia to improve the quality of her cattle, which are of a good type, hardy and prolific, but small and slow maturing. There is considerable hope that by the crossing of English cattle with native breeds there will be enormous improvement in their productivity, both from the beef and milk point of view. With this development it is probable that local demand will be met from the native cattle, while the beef for export will be mainly produced from the new types of cattle which will result from the crossing of British with the native cattle.

The Southern Rhodesian Government, in order to assist cattle breeders to import pedigree stock, are arranging for low sea and rail freights from Britain to Rhodesia. Some part of the cost of this assistance has been provided by the Empire Marketing Board. In addition, that Board has made small grants for research to determine what treatment the local pasture needs in order to make it more valuable for cattle feeding. It would appear to be desirable that this form of assistance should be continued, and if possible extended. The annual maximum export of cattle at the moment could

[1] *Imperial Economic Unity*, by Lord Melchett. George G. Harrap and Co., 2s. 6d.

hardly exceed 5,000 head, but it is believed that without difficulty this total could be increased ten times in a few years. This total, of course, is small in relation to the total demand of the United Kingdom; but on the other hand it is probable that, once the industry has been thoroughly well established, the growth might rapidly extend.

The real problem which faces the development of the beef industry in Rhodesia is that of the cost of transport to the United Kingdom. In respect of the few live cattle that have been sent, the total marketing and transport charges have been in the neighbourhood of £15 per head, and so far as the consignments have been profitable, it has been mainly the result of the bounty of ½d. per lb. liveweight which is paid by the Government of Rhodesia on all approved cattle exported overseas. On the other hand, should the trade attain real magnitude, there is no doubt that the cost of transport, etc., would be materially reduced. In the meantime there may be a satisfactory development of the production of canned meat and meat extracts. Much of the cattle raised in Rhodesia is fattened before killing in the Union of South Africa, and, strictly speaking, the problem of the Rhodesian beef industry cannot be considered separately from that of the industry within the Union of South Africa.

It is believed that there are other parts of the British Colonial Empire in Africa which are suitable for cattle-raising, and there are considerable potentialities in Nigeria.

Hides and Skins.

In our Preliminary General Report we recommended a duty on hides and skins imported from foreign countries. We are led to understand, however, that tanners in the United Kingdom rely upon supplies of the heavier types of hides from certain European countries, and that these hides, owing to their special qualities, are essential to the industry. These European countries, moreover, have only reluctantly been persuaded to raise their export prohibitions on these hides. There appears to be little room for expansion in the United Kingdom's imports of the lighter types of hides and skins from Empire countries, which already supply a high proportion of the United Kingdom's total imports of these types.

After careful consideration of the position, we have come to the conclusion that Empire hide and skin production, at the present stage, cannot be assisted effectively by a preferential duty given by Great Britain. As the report on Hides and Skins of the Imperial Economic Committee (H.M.S.O., 1930) has pointed out, the most urgent need is for improvement in the preparation and sorting of hides, including the method of branding. In South Africa, a Skin and Hide Industry Advisory Board was formed in January, 1930, and the Union will undoubtedly increase in course of time the value of its hide and skin production.

Oil Seeds. The oil from agricultural oil seeds is used mainly for the manufacture of soap, margarine, paint and linoleum. Oil seeds consist of many varieties, some of which are produced in large quantities in the Colonial Empire. In some cases, it appears to be necessary, *e.g.* in palm oil, for the extraction of the oil to take place in the country in which the seeds are produced, but in the case of the bulk of them the crushing does not take place in the country in which the seeds are grown. There is an important crushing industry in this country, with mills situated mainly at Hull and Liverpool. The mills, by crushing, produce the oils and, as a by-product, oil-seed cake, which is an important feeding stuff for cattle. Logically, it would seem that the situation in respect of oil seeds, oils and the products of oils should be a co-ordinated one, duties on which should be put into operation at the same time. The following scheme is suggested as a possible one:

Duties of 33⅓ per cent *ad valorem* on soap and margarine from foreign countries, with half-rates on similar commodities from Empire countries.

Duties of 15 per cent *ad valorem* on the following oils, if from foreign countries:

Castor, coconut, cotton seed, ground nut, linseed, soya bean, palm.

As part of the scheme for Imperial development, preference should be given to Empire seeds over foreign seeds. It is suggested that there should be no duty on the Empire seeds and

5 per cent *ad valorem* on the following seeds, if from foreign countries:

Castor, rape, sesamum, copra, ground nuts, palm kernels,

while consideration should also be given to the question of including cotton seeds in the scheme.

Maize. The United Kingdom is a large importer of maize and in 1929 the value of all imports was £15,282,000, of which £2,537,000 represented shipments from Empire countries. The Union of South Africa is a large producer of maize, and in the draft of our suggested trade agreement with the Dominion we recommended that duties as follows be placed upon foreign productions:

On all maize - - - -	6d. per 100 lbs.
,, maize meal - - -	7½d. ,,

with free entry for South African maize and maize meal. We are of the opinion that this same preference should be extended to maize and maize meal received from the African Colonies. Kenya, Uganda, Northern and Southern Rhodesia are all producing maize and have a potential output which might well displace those supplies now received from foreign countries.

Coffee. The development of coffee production in British East Africa has been a very satisfactory feature of the progress of those colonies. The following table shows the growth of exports under selected years over a period of 20 years:

AVERAGE OF YEARS	
1909-1913 - - -	54,000 cwts.
1922 - - -	215,000 ,,
1925 - - -	297,000 ,,
1929 - - -	360,000 ,,

The United Kingdom has increased its consumption of coffee in recent years and has drawn part of the additional supplies from Empire sources. In addition to British East Africa, there is a considerable production of coffee in India and the British West Indies. The retained imports in the United Kingdom in 1930 were 325,000 cwts. It will be noted from this figure that the whole of the needs of the United Kingdom can be met from Empire sources of supply.

In view of the rapid growth of production throughout the Empire, and notably in the case of British East Africa, as dealt with in this report, we think that the Customs duty on coffee imported from foreign countries should remain as at present; but that coffee, being the produce of any Empire country, shall be free from Customs duty, while the duty upon coffee imported from foreign countries is maintained at the present rate. It is our opinion that an increase in the production of coffee in British East Africa is not only desirable from a general economic standpoint, but in specific relation to the problem of emigration to the Colonies, as dealt with at the end of this report.

Other Commodities.

The commodities which we have referred to in this section represent the principal commodities produced for export in the British Colonial Empire in Africa, but it must not be thought that there are not other commodities which call for investigation, and amongst these are sisal hemp and flax.

There is, of course, also the very important question of the mineral resources of the British Colonial Empire in Africa. The greatest prospects of development at the moment lie in Rhodesia, and it seems not improbable that before long the British Empire's undue dependence on foreign countries for its supplies of copper will be substantially relieved by the great developments that are taking place in Northern Rhodesia, while, in addition, the great possibilities in respect of asbestos and chromium call for notice.

As we have explained in a previous part of this report, it will not be possible at the moment for the greater part of the Colonial Empire in Africa to accord preferences for British goods, but it must be borne in mind that Southern Rhodesia and the Zambesi zone of Northern Rhodesia are free of the international restrictions which apply to other parts, and accordingly it would seem desirable that a suitable agreement for the mutual extension of preferences between the United Kingdom and these territories should be arranged. The general tariff of the Rhodesias provides for duties ranging in general from 20 to 25 per cent, with a preference of one-third in favour of British goods. We are of opinion that this prefer-

ence should in general be increased to a half, and there are certain goods of United Kingdom origin which really ought to be admitted duty free, provided that the revenue considerations of the Colony would permit of this.

MAURITIUS

The staple product of Mauritius is sugar, and this commodity constitutes almost the entire value of the export trade of the Colony, the value of sugar exported in recent years having averaged some £4 millions. Nearly the whole of the sugar export has been made to the United Kingdom and the trade has substantially benefited from the preference granted to sugar producers within the Empire. We recommend that any added preference granted to sugar imported from the British West Indies shall be extended to sugar imported from Mauritius. The details of our proposal are set out in the suggested draft of the trade agreement with the British West Indies in the appendix to this report.

We are of the opinion that the economic position of Mauritius would be placed upon a more sound basis in the future if the export trade ceased to be so completely dependent upon sugar. The canning and preserving of fruit has been started, but the production has not yet reached the stage of providing a quantity for export. Government assistance for this industry is at present contemplated, and the canning of fruit, particularly that of pineapple, may become quite important in the near future. Tobacco is grown upon the island and a very small volume has been exported to the United Kingdom in one or two recent years. The industry has had to face difficult periods due to slumps in price and also to the unsuitability for the United Kingdom market of the type of tobacco grown locally. It is reported that a study of type production is now being made with a view to the Colony extending its production of what are technically known as 'the Virginian varieties', and if the growers can successfully produce this type further important trade may result.

Turning to the imports into Mauritius, it is found that

greater purchases of manufactured goods are annually made from foreign countries than from the United Kingdom. In view of the fact already referred to that the United Kingdom provides almost the entire market for the Colony's export of sugar, this condition of trade should be remedied. There are no international obligations limiting preferential treatment of imports into Mauritius, and in fact a rebate of one-fifth of the general rate is at present in existence. In the attempt more adequately to balance trade between the United Kingdom and Mauritius, we are of the opinion that this rebate should be increased to one-half of the duty.

FIJI

The chief items of export from Fiji are sugar, copra and bananas in that order of importance. The extension of the preference in sugar by the United Kingdom and also by the Dominions would here again be of benefit, as the production of the cane crop in Fiji is capable of fairly considerable expansion. The present exports from Fiji are made mainly to New Zealand and Canada. A new development of a secondary agricultural industry is that of pineapple canning, and with encouragement a further source of trade to the population presents itself.

Fiji naturally takes larger quantities of her requirements in manufactured goods from Australia than from any other country, and in each of recent years the imports from Australia have been more than one-third of the total. New Zealand also shares considerably in the Fijian trade, and the only foreign country which has any appreciable volume is the United States of America, which in each of the last three years has successfully competed for more than 10 per cent of the total imports.

BRITISH MALAYA

British Malaya, which falls politically into three groups, the Straits Settlements, the Federated and the Unfederated Malay States, forms one of the richest sources of supply of

raw materials in the Empire. It has in recent years shown a wide expansion in trade, the bulk of which passes through the ports of the Straits Settlements, and principally through Singapore.

Nearly all the tin ore obtained in the Malayan Peninsula is brought into the Straits Settlements, and considerable quantities are also imported from neighbouring foreign countries. The ore is smelted and subsequently re-exported as 'Straits Tin', the total Malayan output of tin representing about 30 per cent of the world's present annual consumption. Of the United Kingdom imports of smelted tin in 1929, British Malaya supplied 84 per cent and a similar figure has existed in each recent year. It would not appear necessary, therefore, to deal with the import of tin ingots or bars in the interest of Empire production.

Similarly to tin ore a considerable proportion of the rubber produced in Malaya and in the Dutch East Indies is sent to the Straits Settlements, where it is sold prior to export, or re-exported to other countries. There are no Customs duties, except on alcoholic liquors, tobacco and petroleum sold for inland consumption, in respect of imports into British Malaya. Singapore is one of the most important transhipment ports in the world, and it is of vital importance that no policy should be adopted which could in any way adversely affect its importance in this respect.

The trade statistics of British Malaya relate solely to total imports and total exports, and no figures are given of re-exports, and accordingly it is impossible to say what proportion of the British imports into British Malaya consists of goods which are consumed in Malaya. For the same reason it is impossible to determine how much of the exports consist of Malayan produce, and how much of them consist of imports of primary products from adjacent countries, more particularly the Dutch East Indies. Very large quantities of British manufactured goods appear amongst the imports into British Malaya, but until we know how much of this is retained in Malaya, it is impossible to determine what advantages might result to British trade if British Malaya instituted a

preferential tariff system in favour of British manufactured goods.

In considering tariff preferences that might be accorded by the United Kingdom to British Malayan produce, there arises in the case of rubber the same difficulty, in relation to entrepôt trade in this country, as we have described in the case of the Straits Settlements. Very large quantities of rubber arrive in England for disposal, and in 1929 the total value of raw rubber imports from all sources was nearly £17 millions. British countries supplied £14 millions worth of this total, and raw rubber was sold in London for re-export to foreign countries to the value of nearly £6 millions. In addition, a quantity worth more than £1 million was shipped to British ports on through bills of lading for transhipment to foreign ports. It will be seen from this that there is no need for the imposition of any tariff upon raw rubber imported into the United Kingdom.

In addition to rubber and tin, the principal articles of export from British Malaya are copra, pepper and preserved pineapples. There is an increase in production in Malaya of palms from which oil is extracted locally and exported. This product, together with copra, would receive important benefits from the policy dealing with agricultural oil seeds which we have suggested in some detail in this report.

In the draft of our suggested trade agreement with India, we advocated the following:

On all foreign spices (*i.e.* pepper, ginger, cinnamon, cloves and other sorts)	20 per cent *ad valorem* or an equivalent specific duty.

These commodities, if imported from India, are to be free of Customs duties, and the extension of this freedom to the same products, if actually produced in British Malaya, would be of material assistance.

We recommend that the Malayan trade in preserved pineapples should receive similar benefits to those suggested for various preserved fruits imported from other parts of the Empire, and the provisions of a suggested trade agreement are as follows:

On all foreign Fruits preserved in syrup - - - -	5 shillings per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruits preserved without sugar	5 shillings per hundredweight of the gross weight of the containers and the contents thereof.

All fruits which are the product of British Malaya and preserved without sugar should be exempted from duties of Customs when entering the United Kingdom, and fruit preserved in syrup should be exempted from the additional duties stated, provided that the tins or bottles have been manufactured in the British Empire.

It is a matter of great difficulty to make precise suggestions with regard to the preferences which might be granted to British goods entering Malaya until more exact knowledge is available as to the real importation into Malaya of manufactured goods for consumption within the British territories concerned. We would urge the desirability of the Government of the Straits Settlements, through whose ports such an enormous transit trade takes place, obtaining really satisfactory statistics whereby the real imports and exports of British Malaya would be distinguished from the transit trade passing through ports of the Straits Settlements.

CEYLON

The principal exports from Ceylon are tea, rubber and agricultural oil seeds. In the suggested draft trade agreement with India, which appeared as an appendix to our Preliminary General Report, there was suggested an imposition of a duty of 1d. per lb. on foreign tea. A further consideration of this problem suggests the desirability of a higher rate of duty than that of 1d. per lb. if a really effective preference is to be established for tea from India, and equally for tea from Ceylon. Having regard to the fact that the remission in 1929 of the

tea duty has not resulted in outstanding advantages to the consumer, we are inclined to suggest that a duty of 2d. a lb. should be imposed, but that Empire tea should come in duty free. The general recommendation which we have made in this report in respect of agricultural oil seeds would again offer much increased opportunity to certain Ceylon products.

There are Customs duties upon some classes of goods entering Ceylon, both specific and *ad valorem*, but without any rebate covering British manufactures. The receipts from these duties constitute a large part of the revenue of the island, but in a general rearrangement there is no reason why a rebate of one-half of the duty might not be made upon British goods entering the colony. A part of the imports are received from East Indian countries and a large volume of rice is annually imported from India. Apart from these items, the imports in 1927 were £11 millions from European countries and the United States of America, and £700,000 from Japan. Of the first figure, some £6 millions was from the United Kingdom.

As an appendix, we attach a suggested trade agreement with Ceylon.

CYPRUS AND PALESTINE

Both these countries are links in the Imperial chain. The production of tobacco in Cyprus has been the subject of intensive research, and our proposals covering the export of tobacco from the African Colonies should certainly be extended to Cyprus. It is further proposed that the provisions of our suggested trade agreement between the United Kingdom and the Union of South Africa, covering oranges, shall be extended to Cyprus. Our proposal is to impose a duty of 5s. per cwt. upon foreign oranges, whilst leaving those from the Empire country free of duty. Tariff preference might also be given to citrate of lime, which is imported from Cyprus and which is in strict competition with the same product from Sicily. It is possible to extend our trade with Cyprus on a reciprocal basis, and as an example of British manufactures

which might receive assistance, we suggest machinery and agricultural implements. It is gratifying to note that the preference of one-sixth in favour of Empire silk provided under the silk duties, imposed in 1925, led to the establishment of a silk filature in 1925.

In order to place the development of Palestine on an economic basis, and to enable the British Government to comply fully with the terms of the mandate, it is essential that a sheltered market shall be provided for certain products—notably oranges and wine. It is of interest to note that the Jaffa orange from Palestine is on sale in the United Kingdom during the winter, whereas the West Indian and South African crops arrive here in summer. In an earlier part of the report we made some reference to the terms of the mandate under which Palestine is held, and we desire to put on record the fact that we dissent from the view that has so far prevailed that the terms of the mandate call upon us to regard Palestine as a foreign country, and accordingly we express the view that for us to grant preferences to Palestinian products is not an infringement of the most-favoured-nation clause in our Commercial Treaties.

INTERCOLONIAL TRADE

Our work has so far been concerned with trade between the United Kingdom and the Overseas countries of the Empire, and we have not made any detailed examination of the inter-Colonial position, excluding the United Kingdom. Our investigations have, however, clearly indicated the great potential importance of this trade. It seems probable that the development of trade agreements between the various parts of the Empire will lead, as a logical consequence, to the establishment of a number of regional Empire customs unions. Such customs unions already exist in West Africa in the case of Nigeria and the British Cameroons, and in East Africa in the case of Uganda, Kenya and Tanganyika. Groups of Colonies are also likely in some cases to develop a specially close relationship with a particular Dominion, as in the case

of Canada and the West Indies. These countries have already effected trade agreements, and there is even the possibility of a complete customs union between the Dominion of Canada and the British West Indian Colonies.

IMPERIAL RATIONALISATION

In our Preliminary General Report reference was made to the task of preparing the schedules of British manufactured goods which, as noted in the drafts of our suggested agreements, are to be entitled to free entry into the countries of the Empire concerned, or which are to receive the agreed rates of preference in Part II of the draft schedules. We stated the obvious need that, in addition to consultation between Empire Governments, representatives of the various industries in the United Kingdom and other Empire countries concerned should confer in order to give effect to the Imperial rationalisation which is involved.

This suggestion of rationalisation was made in reference to manufactured goods, and, in the case of those interests most likely to be affected, a high standard of organisation exists which would enable the problem to be surveyed from an Empire standpoint. We believe that this principle of rationalisation might also be applied with advantage to certain primary products of the soil. It is apparent, however, that the interests concerned in primary production have not reached the same degree of cohesion as the manufacturing industries, and it would be extremely difficult at present to secure a proper representation of the producing interests in certain cases.

GENERAL NOTES

Reference was made early in this report, both to the complementary nature of United Kingdom manufacturing industries and Colonial production, and to the all-important fact that the trade in question is not static. The fact that in several cases a large volume of manufactured goods is being drawn from foreign countries is of much greater importance

than is represented by the present figures of that part of the Colonies' trade. These territories will inevitably become the leading world sources of supply for many raw products and foodstuffs, as in some cases they are already. Their growing requirements in manufactured goods will largely be met from the channels of trade to which the people become accustomed in the early stages of their modern development, and, as time goes on, it will become increasingly difficult to change the flow of trade, even with the assistance of tariff revision. This difficulty is sometimes increased by foreign standards and types having been adopted at the commencement. For example, a foreign type of machine, once installed, means future business in spare parts for renewals and additional units for extensions, which, for convenience, must be obtained from the original foreign source.

Fortunately, in the Colonial Empire the actual work of development, public schemes for the improvement of internal transport and communication, harbour equipment, drainage and irrigation schemes, all of which call for great expenditure upon material and machinery, are carried out by the local governments in co-operation with the Crown Agents for the Colonies, who confine their contracts almost entirely to United Kingdom and Empire sources of supply. The Governments, too, as a rule, even where they purchase directly, observe the principle of the resolution of the Imperial Economic Conference of 1927 that 'in all Government contracts effective preference be given to goods made and materials produced within the Empire'. We hope that this principle may continue to be kept steadily in view.

The study of our trade with the Colonies necessarily entails some consideration of the problems of development involved in this trade. In order that the development of any country may have an economic basis, a survey should be made which embraces both existing and potential production, markets, labour and other relative matters which might affect the problem. From a co-ordinated study of this information a plan and programme can be established for the execution of development and contingent works, such as communications

(harbours, railways and roads), irrigation and drainage, and the purchase of plant and equipment, machinery and materials required.

The construction of communications and of large public works, such as for irrigation or the discovery of minerals, may rapidly change the entire economic life over considerable areas. Unless the development and the programme of its execution has an economic basis, with more or less assured markets, disaster may result to the people. Native cultivators are unable to comprehend the reason for great world fluctuations in prices of commodities, such as cotton, and it is essential to protect them, as far as possible, from too violent shocks of this nature. It is of importance, therefore, especially in opening up new territory, to study the economics of the whole matter, making a comprehensive survey and then establishing a plan and programme of development.

The problem of transport and communications is usually the main one in undeveloped or partially developed territories. The cost of transport is one of the factors which may determine the possibility of finding a market for the produce of a Colony, and whether it is economic to undertake development works at all. It is, therefore, necessary to make a comprehensive study of communications, both local and Imperial, in order to ascertain the most economic method and line of transport between the points of production and the markets desired.

It is to be noted that while the object of transport development is to provide the most direct or shortest haul from the hinterland to the sea—water carriage being the cheapest form of transport—the economics of shipping must be considered in the matter. The principal ports should be spaced, so far as is practicable, at an economic and convenient distance for the calls of large vessels. The relation of ocean traffic to the development of new ports is often overlooked, and there are many instances of port facilities having been provided by land authorities which have never attracted enough shipping to justify their construction.

Some of the foregoing principles may seem to be more or

less obvious, but there are numerous examples throughout the Empire of disastrous financial and other results following upon a neglect of the considerations described.

In any policy of Colonial development the element of white direction and supervision will be an essential consideration. This can partly be provided by Government agriculturalists, missionaries, etc., but also more directly and continuously by white farmers or planters employing native labour. In many parts of the Colonial Empire, more particularly in the Rhodesias and East Africa, there are considerable openings for settlers of a type who are not attracted to work on the land in the Dominions, but who would bring their capital, their initiative and their powers of organisation to the task of developing these countries, as well as of making homes and a livelihood for themselves.

The benefits of being a producer are gradually being borne in on the mind of the native, so that he increasingly desires to produce and sell in order to obtain the advantages that money brings. In West Africa the native is already a commercial producer on a very large scale, and similarly the native of Uganda is developing as a cotton-grower, and of Tanganyika as a coffee-grower. As time goes on, the native will not only ask for the small comforts of life, but he will imitate the white man in utilising European implements and machinery in the development of his own land.

It is important to bear in mind that, should the policy of a definite co-ordinated organisation of the resources of the British Colonial Empire lead to an increase of the prosperity of its inhabitants to an extent that on the average each of the 62 millions of the present population could increase his or her purchases of United Kingdom goods by so little as 10s. a year, it would result, on the average, in increased direct or indirect employment in the United Kingdom of 150,000 to 200,000 persons. A corresponding addition in the case of the vast population of India would result in an increase in direct and indirect employment in the United Kingdom of approximately one million persons.

APPENDIX ONE

HEADS OF SUGGESTED TRADE AGREEMENT

BETWEEN

THE UNITED KINGDOM AND THE BRITISH WEST INDIES

The countries concerned in this Agreement shall be the United Kingdom and the Bahama Islands, Barbados, Bermuda, British Guiana, British Honduras, Jamaica, the Leeward Islands, Trinidad and Tobago, and the Windward Islands.

The Agreement shall be for a period of ten years, commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the Governments concerned.

No arrangements which any of the contracting countries to the Agreement may enter into with any foreign country shall have the effect of diminishing the advantages obtained by any of the countries which are parties to the present Agreement, but any country may extend any, or all, of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Governments of the British West Indies undertake to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Governments of the British West Indies undertake, in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of

other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR BRITISH WEST INDIAN PRODUCE

The duties on foreign cocoa and coffee shall remain as at present, and cocoa and coffee being the produce of the British West Indies shall be imported free of duty.

The following Customs duties will be imposed by the United Kingdom:

On all foreign Arrowroot - -	1 penny per pound.
On all foreign Ginger - -	$1\frac{1}{2}$ pence per pound.
On all foreign Bananas - -	9 pence per bunch.
On all foreign Fruit Juices, including Must and Syrups	6 pence per gallon, in addition to any duty in respect of sugar content.
On all foreign Fruits preserved in syrup	5 shillings per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit Pulp preserved in syrup	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof, in addition to any duty based upon the sugar content of the preserved fruit.
On all foreign Fruit preserved without sugar content	5 shillings per hundredweight of the gross weight of the containers and the contents thereof.
On all foreign Fruit Pulp preserved without sugar content	2 shillings and 6 pence per hundredweight of the gross weight of the containers and the contents thereof.

All canned fruits being the produce of the British West Indies and preserved without sugar shall be exempted from duties of Customs, and all British West Indian fruit preserved

in syrup and fruit pulp preserved in syrup shall be exempted from the additional duties stated, provided that the tins or bottles have been manufactured in the British Empire, and, where tins are used, provided that the tinplate has been manufactured in the United Kingdom.

On all foreign Mahogany when sawn	1 shilling per cubic foot.
On all foreign Mahogany, in logs.	6 pence per cubic foot.

All cocoa, coffee, arrowroot, ginger, bananas, fruit juices and mahogany being the produce of the British West Indies imported into the United Kingdom shall be exempt from duties of Customs, while the duties upon these commodities imported from foreign countries are maintained at the rates provided in this Agreement.

On all foreign oranges and grape fruit imported into the United Kingdom from the month of May to the month of October, and including the said months in each year, Customs duties shall be imposed of 5s. per hundredweight, and oranges and grape fruit imported from the British West Indies shall be exempt from this Customs duty.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar British West Indian commodities, provided that the preference to the British West Indian products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes to increase the monetary amount of the preference in favour of British West Indian sugar by 2s. 4d. per hundredweight on sugar of 98 per cent polarity, with corresponding adjustments to the present United Kingdom Customs scale of polarisation.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose, other than the above, such duties, when imposed on British West Indian products, shall, in a case where there is no Excise

duty, be not more than half the duty imposed on foreign products, and in those cases where there is an Excise duty the British West Indian preference shall be not less than half of the difference between the Excise duty and the Customs duty.

DRAFT SCHEDULE

1.—Articles to be imported free of duty into the British West Indies, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem*, or half of the duty (whichever may be the greater), will be accorded, if of United Kingdom origin imported into the British West Indies.

Lists to be agreed.

APPENDIX TWO

HEADS OF SUGGESTED TRADE AGREEMENT BETWEEN THE UNITED KINGDOM AND CEYLON

The Agreement shall be for a period of ten years, commencing on a date to be fixed by Order in Council, the Order in Council to be made as soon as the necessary legislation has been passed by the two Parliaments.

No arrangements which either country may enter into with any foreign country shall have the effect of diminishing the advantages obtained by either of the countries which are parties to the present Agreement, but either country may extend any or all of the provisions of this Agreement to any other Empire country.

PREFERENCES ON BRITISH MANUFACTURED GOODS

The Government of Ceylon undertakes to remove the Customs duties, if any, in respect of all goods of United Kingdom manufacture which are specified in the First Schedule to this Agreement, and to impose upon foreign goods of the same kind duties of not less than 20 per cent *ad valorem*.

The Government of Ceylon undertakes, in respect of all goods of United Kingdom manufacture which are specified in the Second Schedule to this Agreement, to accord preferences of not less than 20 per cent *ad valorem*, or half the duty, whichever may be the greater, and in respect of other dutiable goods to grant preferences in respect of British goods of at least half the duty.

PREFERENCES FOR CEYLON GOODS

The following Customs duties will be imposed by the United Kingdom:

On all foreign Tea - - -	2 pence per pound.
On all foreign Copra - -	2 pounds per ton.
On all foreign Vegetable Oils, refined or unrefined	15 per cent *ad valorem*.
On all foreign Spices (*i.e.* Pepper, Ginger, Cinnamon, Cloves, and other sorts)	20 per cent *ad valorem*.
On all foreign Coir Fibre, Yarn, Bristles	20 per cent *ad valorem*.

All the commodities specified above, being the produce of Ceylon imported into the United Kingdom, shall be free from duties of Customs, while the duties upon these commodities from foreign countries are maintained at the rates provided in this Agreement.

Should the rates of duty on the foreign products specified in this Agreement be increased, His Majesty's Government in the United Kingdom shall be entitled to impose duties on similar Ceylonese commodities, provided that the preference to the Ceylonese products shall not be less than the amount of half the duty imposed on foreign products, or the amounts which are specified in this Agreement, whichever may be the greater.

The United Kingdom undertakes that in respect of existing and of any further Customs duties it may hereafter impose, other than the above, such duties, when imposed on Ceylonese products, shall, in a case where there is no Excise duty, be not more than half the duty imposed on foreign products, and in those cases where there is an Excise duty the Ceylonese preference shall be not less than half of the difference between the Excise duty and the Customs duty.

DRAFT SCHEDULES

1.—Articles to be imported free of duty into Ceylon, if of United Kingdom origin.

2.—Articles in respect of which preferences of not less than 20 per cent *ad valorem*, or half of the duty (whichever may be the greater), will be accorded, if of United Kingdom origin imported into Ceylon.

Lists to be agreed.

PART FIVE

EMPIRE MONETARY AND FINANCIAL POLICY

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PART FIVE

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EMPIRE MONETARY AND FINANCIAL POLICY

FOREWORD

THE LAISSER-FAIRE internationalist conception of economics, abandoned long ago by other countries, and now by England, in the field of commodity trade, has to a greater extent continued unchallenged in the sphere of monetary and financial policy. So long as England still had by far the largest net credit balance of payments of all kinds with the outside world and redistributed it on purely international lines, there was, in fact, a world system of finance and currency successfully worked on international lines from London as the world's main centre of banking, discounting and investment. Our growing economic weakness on the one hand, and, on the other, the emergence of the United States as a great creditor power with a predominantly nationalist outlook both on trade and on finance, has upset all that. War debts and reparations have accelerated the collapse of the old system, but have not been its primary cause, and their total remission to-morrow could not put Humpty Dumpty back in his place again.

Yet this is precisely what our financial policy has aimed at ever since the War. Our post-war deflation, our determination at all costs to get back to the gold standard at the pre-war parity, 'to make the pound look the dollar in the face', our desire to pay our debts promptly at a figure that would impress America and the world with our probity and our capacity to pay, our corresponding generosity to our debtor allies, our readiness to step in everywhere since the War as financial fairy godmother to help the distressed—all these things were only the outward manifestations of a mentality which was incapable of realising, not only that the world's economic centre of gravity had shifted, but that the rules of the money game had gone by the board as well.

The first step to recovery was to sit down, investigate the facts and, no less important, re-examine the theoretical foundations for the rule-of-thumb practices which had hitherto passed as the last word in orthodox and scientific finance. This task was admirably fulfilled by the Macmillan Committee, whose report is a monument of lucid exposition and cogent analysis. Where the report fell short was in its failure to explore sufficiently the connection of monetary and trade policy, and in the consequent limitation of its positive recommendations to little more than pious hopes that the world's money policy would, by mutual agreement, be more rationally managed.

The investigation of these matters from the point of view both of Empire economic co-operation and from that of British industry had already been planned for some time by the Federation of British Industries and the Empire Economic Union, but had been delayed pending the completion of the Agricultural and Colonial reports embodied in this volume. By the time a joint Committee of both bodies had been appointed and had sat down to work, the Macmillan Report had appeared. This greatly simplified our labours and enabled us, accepting the main conclusions reached in that report, to follow them up by a consideration of the bearing upon the situation of developments in national and Imperial fiscal and investment policy, of the contribution which might be made to the solution, or at any rate the easing, of the problem by the restoration of silver, in some form or other, to some recognised part in the world's monetary structure, and, last but not least, to the possibilities of building up, in the absence of a stable world system, of a currency system for the British Empire and for such countries as may choose to associate themselves with that system.

Our Committee consisted of four members representing the Empire Economic Union: Sir Robert Horne, Sir Basil Blackett, Mr. H. G. Williams and myself; and of four representing the Federation of British Industries: Sir Frederick Williams-Taylor, Sir William Larke, Sir Roland Nugent and Mr. R. G. Glenday. So great a range of varied experience has

not often, I think, been represented on so small a body as that over which I had the privilege of presiding. To the main report are subjoined two important appendices on the future position of Dominion stocks as trustee securities, and on the effect of our existing scale of stamp duties on Empire trade and investment, and a very useful concise exposition, by Sir Frederick Williams-Taylor, of the main features of the British, American and Canadian monetary systems. The report was accepted on October 14, 1931, by the Grand Council of the Federation of British Industries.

Our work was practically completed before this country was forced off the gold standard on September 21. The general conclusions of the report were not affected but, in view of the course of developments since, I have ventured to add to this section an article recently contributed to the *Banker* in which I have endeavoured to give the reasons why I believe the international gold standard to have broken down beyond the possibility of early repair, and to sketch, somewhat more fully than in the report, the lines on which an Imperial sterling system might be built up.

L. S. A.

January, 1932.

REPORT

ON

EMPIRE MONETARY AND FINANCIAL POLICY

EFFECTS OF CHANGES IN THE PRICE LEVEL

1. The importance of the monetary factor in history is coming to be increasingly recognised. The suggestion of Alison and other historians that the decline and fall of the Roman Empire was largely due to price changes consequent on the exhaustion of the Spanish silver mines and on the drain of the precious metals to the East may contain in it more than an element of fact. Certain it is that the immense increase in Europe's stock of currency, following upon the discovery of America, played no small part in the great economic and social advance of the sixteenth and seventeenth centuries. No less obvious was the effect of the Californian and Australian gold discoveries in contributing to the great trade expansion of the third quarter of the last century, while the demonetisation of silver inaugurated the great depression from 1876-1896, relieved from that date by the opening up of the South African gold field.

2. The influence of the monetary factor is not merely economic but social and political. Price changes raise difficult issues of equity between different classes of the nation. They alter the relative power and status of nations. They give an intensity to other factors which but for them might have been quiescent. Irish political nationalism might well have died out but for the great fall in agricultural prices in the seventies. The same cause to-day finds its outward and visible expression in Indian discontent. In the words of the Macmillan Committee (paragraph 204):

'Violent price changes (for what we have said applies *mutatis mutandis* to rising as well as to falling prices) initiate social as well as economic disturbances which leave no part of the national or international order unaffected. But we feel that the significance of what has been taking place in recent months is not always fully

grasped. A study of history would, we believe, confirm the opinion that it is in the changes in the level of prices, and in the consequential alteration in the position of debtors and creditors, entrepreneurs and workers, peasants and the tax gatherer, that the main secret of social trouble is to be found. Looked at from this point of view the events of the last decade are of the most extraordinary kind. A very violent depreciation of money was sufficient in the immediate post-war period to destroy over a large part of the Continent of Europe all rational economic calculation and all orderly social and economic development. This violent movement was followed in turn by a period of relative stability in which material well-being progressed markedly. This phase has now been followed by a violent down-turn of prices, the effects of which upon political and social stability have already been very great. The problems thus raised transcend in importance any others of our time and generation and we have regarded it as our main task to expound their significance and to bring forward suggestions for their solution.'

3. With the recognition of the importance of the monetary factor inevitably comes the recognition of the need for its control.

'An era of conscious and deliberate management must succeed the era of undirected natural evolution. . . . The monetary system of this country must be a Managed System. It is not advisable, or indeed practicable, to regard our monetary system as an automatic system, grinding out the right result by the operation of natural forces aided by a few maxims of general application and some well-worn rules of thumb.' (Macmillan Committee: para. 9 and 280.)

Such management, aimed at counteracting the serious economic, social and political effects of price instability, may be a difficult and delicate, but should not be an impossible task. Even if the ideal solution might be attainable only by a degree of international co-operation which is not yet in sight, much can be done by a great and wealthy community like the United Kingdom, and still more by so immensely powerful a group of communities as the British Empire, to shelter its own citizens from the worst effects of world monetary fluctuations, and, indeed, to bring those fluctuations under some measure of control. Nor need such a policy of national and Imperial monetary control interfere with the endeavour to improve international co-operation in this field.

CAUSES OF THE WORLD DEPRESSION

4. We agree with the conclusion of the Macmillan Committee that the present world economic crisis is primarily a monetary crisis. It has undoubtedly been accentuated by over-production of certain primary commodities, such as wheat, sugar, coffee and rubber. But it is difficult to see how over-production in particular commodities could have exercised so far-reaching and universal an effect upon the price of all primary products. Nor can improvements in agricultural methods and extensions of areas cultivated, factors which have been in more or less continuous operation both before and since the War, account—as do the monetary factors—for the actual chronological course of recent price changes. As for general over-production we are inclined to agree with the dictum of Marshall that 'the want of a proper standard of purchasing power is the chief cause of the survival of the monstrous fallacy that there can be too much produced of everything'.

5. The fall in wholesale prices is shown in the following table:

(Average 1913 = 100)

DATE	CEREALS AND MEAT	OTHER FOODS	TEXTILES	MINERALS	MISCELLANEOUS	COMPLETE INDEX
Average 1924 -	159·9	169·9	210·6	145·2	131·5	159·3
,, 1928 -	145·0	149·4	161·7	111·9	119·3	135·1
,, 1929 -	135·6	136·8	141·9	116·2	112·7	127·2
,, 1930 -	113·4	122·9	99·1	101·6	101·5	106·8
End Feb., 1930 -	119·5	132·2	115·1	110·1	108·4	115·9
,, Jan., 1931 -	94·3	110·8	75·8	91·5	90·4	91·3
,, Feb., 1931 -	92·9	108·4	78·0	93·5	90·5	91·6

6. The fall in retail prices has been far less. Taking 1924 as 100, the Ministry of Labour Cost of Living Index had only fallen to 85 in the first quarter of 1931 as against a fall to 64 in the case of wholesale prices. This is only the natural consequences of the series of lags and resistances in the adjustment of wages, salaries, and fixed charges to wholesale prices

which make a price fall due to currency contraction or inadequacy so serious to the producer. Caught between the falling price of his product on the one hand and, on the other, fixed overhead and debt charges, the natural and highly organised resistance of labour to wage reductions, and the much slower fall in the retail price of his necessities as a consumer, he loses his trade, dismisses men, lets his machinery go unrenewed or his farm go out of cultivation, and finally goes under.

7. The recent unparalleled fall in prices has been due in the main to a shortage of gold, arising, not so much from a total insufficiency of the precious metal, as from its maldistribution. This maldistribution has been the result of the action upon the world's monetary system of a number of factors. First of these, in public estimation, though not in importance, come reparations and war debts, of which the ultimate recipients are France and the United States. Then come the interest payments due to these countries, and more particularly the United States, in respect of their foreign investments. Thirdly, comes the tariff policy of these countries, which precludes payment of these debts in kind, and creates yet further debts in respect of their favourable trade balance—all ultimately payable in gold.

8. The effect of French and American tariff policy has been accentuated by the combination in Great Britain of a policy of active deflation with the maintenance of Free Imports which, by over-stimulating its imports and restricting its exports, has steadily weakened its hold on the gold supply. The absence of any policy of Imperial economic co-operation is a further factor in accounting for the fact that the British Empire, which produces some 70 per cent of the world's annual output of gold, and has produced nearly £700 millions since 1919, now holds less than a third of that amount, and is in danger of collapsing from a shortage of its own chief product, while the United Kingdom, although one of the greatest of all creditor nations, has difficulty in finding cash to meet its immediate liabilities.

9. The net total of reparation and war-debt payments

combined ultimately retained by France and the United States amounts at present to about £16 millions and nearly £50 millions a year respectively, the latter sum being due to rise considerably in the near future. The payments due to the United States in respect of the excess of interest on American investments abroad over foreign investments in the United States, amounted in 1930 to some £122 millions and are rapidly increasing. The United States favourable balance of commodity trade averaged £141·3 millions for the years 1924-1929 and was £156 millions for 1930. Even deducting the enormous sums spent by American tourists abroad (£166 millions in 1930), and other invisible imports, including immigrant remittances, which up to 1929 actually more than balanced war-debt payments, the net balance due in gold to the United States alone amounted for 1930 to nearly £150 millions. It is sufficient to set against these figures the present total and distribution of gold in the world: £2,095 millions, of which over £1,000 millions is already in the United States and nearly £500 millions in France, not to speak of French and American gold at short call in other countries, to realise that, left to themselves, these factors would long before this have drained the world of its last ounce of gold, and that indeed, short of a complete change in the situation, that eventuality cannot be very far off.

10. The one countervailing factor has been the foreign investment of the creditor countries. In the case of this country foreign investment has represented a consistent policy, based on long habit and profoundly influenced by the experience that it pays to help debtors through their temporary difficulties. French and American investment has proceeded on very different lines. The French, after their experience with Russia, have been intensely reluctant to lock up any money abroad and have tended to confine themselves to short-term advances. This is almost as bad as the actual hoarding of gold, for either gold has to be kept in reserve to meet sudden demands for repayment, or else the borrowers run the risk of the kind of financial disaster which nearly overtook Germany, and from which recent events have shown us to be by no

means immune. America, too, has very largely lent short, and, in any case, her policy of foreign investment has been intermittent and liable to diversion by her own internal fluctuations and by alternating moods of over-confidence and panic. It is this failure of the two great creditor countries either to buy or to lend consistently that has precipitated the general crisis.

THE COURSE OF WORLD DEFLATION

11. The story begins with the restoration of the gold standard in Europe and the consequent scramble for the gold required for the conventional currency reserves. We were the first to commit ourselves to the restoration of the pound sterling at the old gold parity, and our efforts in that direction, involving a continuous process of deflation culminating in the final attainment of the object aimed at in 1925, imposed a serious additional handicap upon our already high costs of production. In the view of the Macmillan Committee this policy provides 'the major part of the explanation of the adverse change in our costs of production compared with elsewhere'. So far from accepting the view that our loss of trade has been due to inefficiency, they consider that only a high degree of efficiency could have enabled us to maintain such trade as we have done against so heavy a handicap. As for the argument that the policy we pursued was justified by the benefits accruing to us from our international financial business, the Committee conclude that it is not likely that these benefits have 'gone even a fraction of the way towards compensating the losses of wealth through unemployment in recent years'.

12. The general restoration of the gold standard in Europe was only made possible by large-scale American investment. According to the Macmillan Report, the United States, in the four years 1925-1928, invested nearly £1,000 millions in foreign long-term securities. This process was deliberately fostered by the Federal Reserve authorities, who, anxious to reduce the accumulation of gold in America, which had reached some £900 millions, quoted specially low money rates in the autumn

of 1927 in order to stimulate a boom in foreign securities. Not only was the gold drain checked, but by the end of June, 1928, nearly £120 millions of the gold had found its way back across the Atlantic. The whole world situation was eased and a general return to prosperity seemed at hand. Unfortunately, cheap money in America also contributed to the rise in the price of American common stocks and to the great share boom, which before long began not only to deflect investors from foreign investments, but to suck into its vortex money, both American and European, from overseas. After the crash at the end of 1929 more money was drawn in to meet liabilities, and political uncertainty in Germany and elsewhere has since been responsible for yet further withdrawals. Upon this situation were superimposed the effects of a French position in which reluctance to invest abroad, except to some extent on short call, and the legal limitations upon the powers of the Bank of France, combined to create a steady piling up of gold. This result, economically unprofitable, was no doubt in the main unintentional and almost automatic, though perhaps not unwelcome in quarters where a large gold reserve is believed to be a valuable asset in war and not without its influence in diplomacy.

13. With this breakdown, after a short period of expansion, of the process of international investment there remained nothing to stop the drain of gold to France and America and the collapse of prices in a world whose currency and credit basis is fast melting away. How little margin was left for a continuance of the process at the beginning of this year is shown by the figures quoted on page 134 of the Macmillan Report. According to these, the creditor countries—*i.e.* the United States, France, and in a lesser degree Great Britain, Belgium, Holland, Switzerland and Sweden—increased the gold in their Central Banks and Treasuries between January 1, 1929, and January 1, 1931, from £1,277,300,000, or 65 per cent of the world total, to £1,564,000,000, or 74·5 per cent of the total, while the gold in the rest of the world went down from £680 millions to £531 millions. As at least two-thirds of this last figure is immobilised under the laws regulating the

currency reserves of the debtor countries, it was unlikely even in January, as the Macmillan Report points out, 'that the debtor countries can continue much longer to square their international position by parting with gold at the rate of £70 millions a year'. But since January the rate of flow has doubled, and France and the United States together have sucked up at least another £80 millions in seven months.

14. By the middle of 1931 the crisis was fast coming to a head. Premonitory trouble in Austria and other European countries was followed by the imminent collapse of Germany, which was only just saved from being driven off the gold standard by emergency action on the part of her creditors, including a *moratorium* of all war debt and reparations payments. In this crisis the United Kingdom still appeared as one of the strong creditor nations assisting a weaker neighbour.

BRITAIN'S FINANCIAL CRISIS

15. Within a few weeks supervened our own financial crisis. One main underlying cause of this has been the gradual disappearance of our net trade balance. This country has always in modern times had a substantial excess of visible imports over exports and, within limits, such an excess is only the natural and normal accompaniment of our position as a great shipping nation, as a financial centre, and as a great creditor. But when all the invisible export factors have been taken into consideration it has also regularly had a large net balance available for new oversea investment, and that investment has played no small part in maintaining our export trade. In 1913, while our visible adverse balance amounted to £158 millions, our invisible exports amounted to £339 millions, leaving a clear net balance of some £181 millions available for foreign investment. For the years 1928-1929 the average net balance stood at £138 millions, a figure which, allowing for the change in prices, was not much more than half the figure for 1913. In 1930 it was down to £39 millions and in the present year the deficit is likely to be nearer £100 millions than £50 millions.

16. In spite of this the habit of consistent oversea invest-

ment referred to previously would appear to have continued even in the absence of genuinely realised earnings to invest. For the years 1924-1930 the average of our oversea investments has exceeded our average net balance by £34·6 millions, and even in the first six months of the present year of deficit £42 millions were invested overseas. It is difficult to resist the conclusion that at any rate part of our long-term oversea investments of recent years has been made, directly or indirectly, with the short-term money left in London by those who found that they could get good terms combined with what they believed to be the very maximum of security.

17. That confidence in the stability of our position began to be shaken when it was realised how seriously the support we had given to various weak positions, more particularly in Austria and Germany, had depleted our own liquid resources. Heavy withdrawals of gold in July were only balanced by an emergency loan of £50 millions raised by the Bank of England in France and America. The Report of the Economy Committee, with its very definite statements as to the impending deficit in our Budget, precipitated a panic among foreign investors and depositors, temporarily checked by the formation of a National Government pledged to drastic economies as well as to a complete balancing of the Budget. Even these measures, however, and a further loan by the Government of £80 millions in America and France, proved inadequate in face of further withdrawals due not so much to lack of confidence as to the domestic needs and difficulties of some of the countries concerned, and, at the last moment, to a large-scale 'bear' raid on sterling. On September 21 the Chancellor of the Exchequer announced that the Government had decided to go off the gold standard, and the pound has since fluctuated at a figure of between 15s. and 16s. gold. Norway, Sweden and Denmark have followed suit since.

STABILISING THE PRICE LEVEL

18. Agreeing with the general analysis of the Macmillan Report as to the causes of the recent fall in prices and as to the

disastrous character of its effects, the Committee are also in broad agreement with the one positive general conclusion of the report, which is that the raising of prices above their present level is an immediate necessity, and they declare their emphatic opinion that to allow prices to be stabilised at their present level—not to speak of a further fall—would be:

> 'A serious disaster for all countries of the world alike, and that the avoidance of such an event should be a prime object of international statesmanship. . . . Our objective should be, in so far as it lies within the power of this country to influence the international price level, first of all to raise prices a long way above the present level, and then to maintain them at the level thus reached with as much stability as can be managed. We recommend that this objective be accepted as the guiding aim of the monetary policy of this country.'

19. The question then is, what measures can be taken on a national, Imperial or international scale, to restore the world price level, and secure its subsequent stability or to protect this country and the Empire from the effect of its fluctuations?

REPARATIONS AND WAR DEBTS

20. Of the remedies suggested the remission of Reparations and War Debts figures very prominently in the public mind. But the figures already given show that these only play a relatively small part in the drain of gold to France and America. The political difficulties in the way of their remission, or even formal scaling down, may prove very great. On the other hand there would probably be very little objection to their indirect scaling down as the automatic consequence of other measures that reduced the present abnormal price of gold. We do not wish in any way to minimise the importance of securing reconsideration of the position in this respect by the United States and France, but we consider that it would be a mistake to concentrate attention upon it to the detriment of more immediately feasible measures.

FISCAL POLICY

21. A more important and promising field is that of fiscal policy. Here, while there is little prospect of any immediate or far-reaching change in French or American fiscal policy, there is room for a very substantial reversal of the present gold drain through a change in the fiscal policy of this country and of the British Empire. A glance at the figures will make this clear.

22. The total excess of American exports over American imports for the years 1924-1929 averages £141·3 millions a year. Over the same period the excess of British imports from the United States over British exports to the United States averaged, according to our statistics, £154 millions a year, a figure which should be reduced to roughly £120 millions to be strictly comparable. In other words, this country has been responsible for six-sevenths of that excess of American exports which has been one of the primary factors in the drain of gold to America. Similarly, in the case of France her large credit balance in her trade with us, averaging £33 millions for 1924-1929, has obviously been an important factor in assisting her policy of scraping together and immobilising so much of the world's gold. Our Free Trade policy has, in fact, proved a misfortune for the world as a whole, as well as to ourselves, by handing over the gold, which we should have steadily diffused by consistent overseas investment, to others less capable of using it for world purposes.

23. The actual effect of a domestic tariff in this country on the balance of trade and so on the gold situation would work out roughly as follows: There would be in the first instance a direct reduction in imports. In so far, however, as this was accompanied by a greater volume of home production and employment, direct or indirect, it would involve a large increase in the imports of raw materials required for the additional production, and of foodstuffs required by the workers engaged upon it, which would have to be set off against the reduction in our imports. On the other hand, the export position of our industries would be greatly strengthened, not only

by reduction of factory overheads through working more up to capacity, but also by the reduction of taxation, which would follow upon a reduction of unemployment and upon the strengthening of the revenue by the increased total volume of wages and profits. The improvement of our balance of trade through this factor might easily be very much larger than that due to the mere reduction in imports. To these figures would have to be added an improvement in our freight earnings due to increased exports and to the substitution, in our imports, of bulky raw materials and foodstuffs, mostly brought over long ocean voyages in our own ships, for manufactures sent over shorter distances and largely in foreign ships. Lastly, our gold position would be still further strengthened by more active British home investment and, in all probability, also by American investment in prosperous British industries.

To some extent it is inevitable that measures, especially fiscal measures, taken to restore the trade balance of this country and to increase employment will have the effect of transferring unemployment abroad. It appears to us, however, to be impossible for this country to continue any longer to gamble on the unrealised expectation of the adoption of a truly international policy by other countries. Alike in our policy of free trade, in our reparation and inter-allied debt policy, in our policy of investment abroad and in our working of the gold standard since 1925, we have gambled on the hope that in due course other countries would take the same view as we took, namely, that general prosperity is in the long run better promoted by international and even altruistic action rather than by a narrowly nationalistic outlook. While it may be true that many of the problems now facing us, in particular the problem of securing a rise in the world level of prices, could best be solved by international action, it has become clear that we can no longer afford to wait, and should be failing in our duty if we did not take every possible internal step to set our own house in order. It is probable indeed that the adoption of a tariff by the United Kingdom may not be without effect in bringing about a re-

consideration of the unduly restrictive tariffs of other countries. More generally, too, the revival of British prosperity may, by the development of our market for primary products and the strengthening of our financial power, do so much to improve world prices and world prosperity as more than to offset any incidental temporary hardship inflicted upon others in the initial stages of the process. It is at least arguable that our professedly altruistic policy in trade has in recent years been more injurious than beneficial to the world outside.

THE IMPERIAL ASPECT

24. In this connection what applies to the domestic aspect of fiscal policy applies equally to the even more important Imperial aspect. The immediate scope for increased export of our manufactures within the Empire is at least as great as the scope for increased production for the home market, and would, in its turn, strengthen our whole position as regards costs by further increasing our scale of production and by bringing about yet further reductions of taxation made possible by reduction of unemployment and increased yield of revenue through fresh production. The reciprocal increased purchases by us of Empire products would stimulate development overseas and lead to yet further exports, while the whole process of development would attract not only British but American capital.

25. America's excess of exports over imports in her trade with Canada over the years 1924-1929 averaged some £48 millions a year, a gold drain comparable to the whole international war-debt payments to America. For 1928-1929 the figure was nearly £76 millions. For Australia the corresponding adverse balance in her trade with the United States for the same six years was £28·5 millions. It is obvious that if a large part of this trade could be diverted from the United States to this country, or to other parts of the Empire, the drain of gold to America would be yet further restricted. It is no less obvious that a policy of Imperial Preference which promoted the more rapid development of Canada would at once

encourage an inflow of American capital, on which, indeed, the greater part of Canada's recent development has been based; in other words bring back gold now sterilised in the vaults of the Federal Reserve Banks into world use. Here again the figures indicate that the effect, not only on the local situation, but even on world prices, would be by no means inappreciable.

26. In this connection it is worth keeping in mind the fact that a large part of the Empire is on a sterling basis or pegged to sterling by the operation of currency boards which maintain the exchange at permanent parity. The area of sterling parity includes East and West Africa, the West Indies and Malaya[1]. Purchases from and sales to that area, though they figure in our import and export statistics, have no more effect upon the gold situation than purchases from or sales to Scotland. On the other hand, any net excess of imports into these areas from countries other than the United Kingdom over exports from these areas to countries other than the United Kingdom is *pro tanto* a drain upon our gold, and *vice versa*. The same factor, of course, applies to an even greater extent, in the case of France, to her colonial empire, over the whole of which the French monetary system prevails. Even in the case of the Dominions and India, though they are not on a sterling basis, the fact that their proportion of reciprocal purchases from us is much higher than in the case of foreign countries, makes imports from them constitute much less of a drain on our gold position than foreign imports. The point is one to which we shall recur in connection with the possibility of a common currency basis for the Empire.

27. The effect of Empire development both in reducing our foreign purchases and increasing our own exports is, of course,

[1]In a somewhat wider sense the sterling area, at present, also includes, within the Empire, India and the Irish Free State which keep their currency at parity with sterling, and Australia and New Zealand which keep theirs below parity but in relation to sterling. Outside the Empire, Egypt and Iraq normally maintain their currency on a sterling basis, while other foreign countries like Denmark have, in their recent flight from gold, more or less linked themselves to sterling for the time being.

not confined to the development due to purely fiscal preferences. Preferential inducements, for instance, to the flow of capital into Empire rather than foreign investment might be made to play an important part in a general Imperial policy. The Colonial Stock Act has, in fact, played such a part already. The political difficulties in the way of its continued application to the Dominions, and suggestions for surmounting these are discussed in Appendix One to this report. The possibility of a preferential differentiation of the various stamp duties on securities is also dealt with in Appendix Two.

28. There can be little doubt that the systematic development of the resources of the British Empire would bring about a complete change in the present economic balance of the world. It would, from the outset, check the present outflow of the gold produced in the Empire, and would probably in course of time draw out again part of the gold now sterilised in France and the United States. But the process would take time and, in the interval, the existing price shortage constitutes a serious obstacle to development.

FUTURE SUPPLIES OF GOLD

29. Moreover, there remains the fact that the existing and prospective gold supply in the world, even if more evenly distributed, is likely to prove seriously inadequate to world needs. The total output is likely to go down (*see* Appendix Three to Macmillan Report) from £83 millions in 1930 to about £76 millions in 1940. The non-monetary demand is slowly increasing and is calculated to rise from £37 millions to £41 millions by 1940. The new gold available to meet the growing monetary needs of the world will thus fall from £46 millions in 1930 to under £35 millions in 1940. On the other hand the world need for increased currency to meet its growing production was estimated by the Gold Delegation of the Financial Committee of the League of Nations in their First Interim Report at either two or three per cent per annum. It is the latter figure which is confirmed, as necessary to maintain price stability, by the very careful analysis of gold production

and prices over the period since 1851 which has been carried out by the Industrial Institute. On this basis, and assuming the retention of the present conventional 40 per cent gold cover for notes in most gold-standard countries, there is already a shortage on the annual supply, rising from £16·3 millions in 1930 to an estimated £48·9 millions in 1940. Even if the gold cover were reduced to 33 per cent, and the rate of increase required taken at the lower figure of two per cent, there would only be a small margin to-day, converted into a small but steadily increasing shortage after 1937.

SILVER

30. In these circumstances it would appear that the possibility of supplementing the metallic basis of credit by the restoration, in some measure or other, of silver to a place in the world's monetary system deserves serious consideration. Without discussing how far the elimination of silver from the world's currency in the last quarter of the nineteenth century may have played a part in the genesis of the present crisis, it may be worth while briefly referring to the antecedent history of a subject which was once the theme of acute economic and political controversy.

31. In spite of the non-participation of this country, which had gone on to a purely gold standard in 1816, the support of the European nations and of the United States had proved amply sufficient up to 1873 to maintain the successful working of a bimetallic system which not only afforded a stable basis of exchange between gold- and silver-using countries, but also provided an adequate total supply of metallic currency for world needs. In 1873 Germany, placed by the unexpectedly rapid payment of the French War Indemnity of £200 millions in a position of having a great surplus of currency, decided, in imitation of England, then at the height of its prosperity, to go on to the gold standard, and proceeded to sell off large quantities of silver. For this the normal market was the French Mint and those of Belgium and other countries of the Latin Union.

32. There is no reason to suppose that the bimetallic system could not have carried the strain; and it was the political motive of putting a spoke in the wheel of the enemy, rather than purely economic considerations, which led to the progressive restrictions imposed by the French Mint which culminated in the complete closing of the Mint to silver in 1876. These measures, followed by the other countries of the Latin Union, and by the United States, in fear of being swamped by the surplus of silver, were originally intended to be temporary. But the situation went too far to be corrected by individual action, and the attempt to restore it by international agreement broke down against the steady opposition of this country, an opposition due to a short-sighted notion that we as a gold-standard and creditor country only stood to gain by the extension of the gold standard and by a progressive deflation. This chapter ended in 1893 with the final closing of the American and Indian Mints.

33. The result of the discarding of silver by the greater part of the civilised world was a very severe fall in prices resulting both from the inadequacy of gold and from the devaluation of the currency of the silver-using countries of South America and the East. Unable to remove its cause by international action most of the nations concerned took individual steps to counteract its effect on their agriculture and industries by tariff measures. This country, precluded by its theories from taking any such steps, witnessed a disastrous decline of its agriculture, and a serious check to its industrial development.

34. After 1895 the general price situation was greatly eased by the coming into production of the Transvaal deep-level gold mines. Most of the world settled down on the gold standard, the outstanding exceptions being China, which remained on a purely silver basis, and India, which maintained a large silver reserve behind an artificially fixed rupee and, as a nation, continued steadily to put its savings into silver. The price of silver, which had before demonetisation stood at about 60d. per ounce, had fallen by 1895 to 30d., and, up to the War, fluctuated between that figure and 24d. Once demonetised, silver became in the main a commodity, subject in

general to the same fluctuations as have been experienced in the course of the last half-century by other commodities. In the case of silver, however, these fluctuations have from time to time been seriously accentuated by action taken by various countries in regard to that part of their currency in which silver continued to play a part. During the War, India's large export balances sent prices up rapidly and for a few months in 1919-1920 silver stood above the pre-1873 figure. The relapse which would have taken place in any event was accentuated by the silver liberated by the debasing of the British token currency and by the substitution of notes for silver over a large part of Europe, and the price gradually went down to about 26½d. for 1927-1928.

35. Since that date there has been a further tremendous fall, to 13d. an ounce and under, mainly due to the sale, or threat of sale, of Indian currency reserves in pursuance of the policy, decided upon in 1927, of putting the rupee on a gold basis, and to the adoption of a similar policy by French Indo-China[1]. The effect of this fall upon the political and economic situation in India and China has undoubtedly been serious. The precise extent to which it has also contributed, over and above the causes already discussed, to the general world depression is a matter on which there may well be room for considerable difference of opinion.

36. The fall in silver in the last three years, and, indeed, ever since 1873, may truly be described as an artificial fall mainly due to the action of governments in demonetising or discarding silver. It has not been due to natural causes such as excessive production. As a matter of fact the production of silver during the last 400 years has not exceeded that of gold by more than 14½ to 1; during the last 100 years the ratio has been 11·8, and during the last 30 years 10·9, figures which of themselves clearly could not account for a fall from the standard ratio of 15½, which prevailed before demonetisation began in 1873, to over 70 to-day. Since the War the production from the mines has never equalled the demand. The total

[1]Price on April 14, 1932, 16½d. (Sterling) an ounce equal to 12¾d. an ounce at gold parity.

shortage from 1920 to 1930 inclusive has been some 328 million ounces, only converted into a surplus by the selling off of demonetised metal by governments to the tune of 408 million ounces. The fall of the last three years has been mainly due to the sale of over 200 million ounces between 1928 and 1930, chiefly by the Indian and French Indo-Chinese Governments.

37. It can hardly be doubted that there would be advantages to the world as a whole in raising the price of silver as a commodity at any rate to the level of 1927-1928. Such a raising of the price of silver might, through its effect on the Indian and Chinese trade, well prove an important step in securing that recovery of wholesale prices generally which we have already, following the Macmillan Report, declared to be the essential remedy for present ills.

38. The advantage due to the mere raising of the price of silver as a commodity would, of course, be greatly enhanced if the silver acquired in the process were utilised by the Western world to expand its shrinking supply of gold. Without going the length of remonetising silver as currency, or of making it legal tender at a definite and permanent ratio, it would substantially increase the amount of gold available, as well as keep up silver prices, if the Central Banks were authorised to keep a percentage of their metallic currency reserve in silver at market price.

39. The inclusion of silver, at a definite and permanent ratio, in the world's monetary system, available for the purposes of international settlement as well as for a strengthening of currency reserves, would no doubt have great advantages. It would avoid exchange fluctuations between the gold- and silver-using sections of the world. It could also, at some appropriate ratio, be made to provide, as far as can be foreseen, just about that extra amount of metallic currency basis as would be required to make up for the estimated prospective total shortage of new gold as compared with world needs (apart from maldistribution).

40. But the establishment of any such system would only be possible on the basis of a wide measure of international

agreement. The lesser steps mentioned could be taken at once within the Empire, and would in all probability be widely followed outside even in the absence of formal agreement. If the British Government would convene, or agree to attend, an immediate International Conference on Silver, there would be little doubt of its securing decisions which would probably do more to ease the immediate situation than any others that could be reached in the same time.

41. In giving this measure of support to proposals for the restoration of silver to a place in the world's monetary system, we desire, however, to make it clear that we are not in disagreement with the view of the Macmillan Committee, referred to below, that in a stable and financially highly developed community, neither gold nor any other metallic backing is required to support an internal note issue, and that a metallic reserve is needed for no other purpose than to meet a foreign drain and provide an international standard of value. Indeed, if all the nations of the world were in a position to confine their metallic reserves to that purpose, the supply of gold alone might well be sufficient for the more limited functions which would then devolve upon it.

MEASURES FOR ECONOMISING GOLD

42. So far we have discussed measures aimed either at correcting the maldistribution of gold or at supplementing its total volume. There remains the consideration of measures primarily of a banking character dealing with the relationship of the currency generally to the stock of precious metal used as its basis or for the purposes of international exchange. We assume that, at any rate for exchange purposes, the convenience of a metallic medium of exchange will ensure its continued retention, at any rate as an element in the financial machinery of the world.

43. As actual currency the precious metals have, since the War, been superseded in almost all civilised Western countries by notes for all but the lower denominations. These notes in most European countries and in the United States have been

authorised on the basis of a cover of 40 per cent gold and the balance in securities. In this country, before the War, the whole paper currency was backed by gold with the exception of less than £20 millions—the fiduciary issue—covered by securities. The fiduciary issue, greatly increased during the War, was fixed in 1928 at £260 millions with provisions for increase in an emergency. With an actual maximum requirement for currency of about £380 millons this figure would mean that some £120 millions of gold, *i.e.* just over 40 per cent, would have to be held over and above any gold required for the purpose of redressing exchange fluctuations.

44. Even so there is a widespread feeling that existing regulations involve an excessive locking up of gold, and a reconsideration of the conventional 40 per cent gold cover has been advocated in many quarters. The recommendations of the League Gold Delegation, endorsed by the Macmillan Committee, are:

(1) All gold-standard countries should agree that they will not allow gold to pass into active circulation, whether in the form of coins or of gold certificates;

(2) Central Banks should give collective considerations from time to time to the question whether it would be in the general interest that the legal requirements in force in different countries as to gold reserves should be relaxed or tightened up, and should undertake to use their influence with their Governments to secure changes along the lines indicated, so far as is compatible with their domestic situations;

(3) Central Banks should be permitted by the laws of their respective countries to reckon balances with the Central Banks of other gold-standard countries, or with the Bank for International Settlements, as the equivalent of gold for all purposes of the law;

(4) Central Banks should not be unduly limited in their power to expand their deposits otherwise than against a corresponding increase in their holdings of gold or the equivalent of gold. Similarly, it should lie within the power of a Central Bank to restrict the volume of its deposits otherwise than by decreasing its holdings of gold.

These suggestions would, no doubt, be of substantial help in normal times in economising the world's supply of gold, and in mitigating the effects of a general world shortage. As

against the kind of strain to which the gold standard has recently been exposed their inadequacy is obvious.

45. More effective, if they could really be followed out, are the recommendations of the Macmillan Committee for the close co-operation of the Central Banks of the world in so regulating bank credit as to maintain stability in the rate of new investment, in preserving a proper balance between long-term and short-term investments, and in preventing the importation of unnecessary gold. But while there is undoubtedly a field for closer co-operation, it may be doubted whether the powers of the Central Banks, even if their outlook were purely international, are really great enough to counteract the forces and tendencies in their respective countries making for particular economic policies or favouring certain types of investment. The United States will not give up their tariff, nor the French investor his dislike of long-term investments abroad, to help the Banks bring about a better world distribution of gold.

46. Here again then, while hoping the best from international co-operation, it is essential that we should take our own measures on national and Imperial lines. In this connection the Macmillan Committee, in its recommendations as regards our own currency system, has gone far beyond the suggestions of the League Gold Delegation. It has in fact come out boldly for the complete abandonment of the theory that gold is required as the actual basis of our internal currency, and for the maintenance of an entirely disconnected gold reserve for exchange purposes, the gold reserve only being included as part of the securities held against the note circulation when it happens to be available. The proposal, in brief, is that a maximum volume of currency, provisionally fixed at a somewhat elastic total of £400 millions, should be issued as required irrespective of the state of the gold reserve. The latter is not to go below a minimum of £75 millions, except in very special emergencies, and is normally to be kept at least as high as hitherto, but with much greater freedom to vary it in accordance with exchange requirements. The figure of £400 millions was, no doubt, taken as a convenient maximum not

likely to be exceeded in the near future—and as a possible danger signal against any tendency to inflation. Theoretically speaking no arbitrary limit is necessary, the ordinary bank-rate procedure and the sale of securities by the Central Bank affording sufficient protection against inflation and any consequent undue efflux of bullion.

47. The present system is really, the Report points out, a meaningless survival from a period when people still thought in terms of actual metallic currency and were entitled, whenever they wished, to be paid in such currency.

> 'The present system . . . is wrong in that it associates the amount of the gold which the Bank of England should hold immobilised and unavailable for export with the amount of the active note circulation. Formerly, when the Bank's gold was held for two purposes, partly to meet an external drain, and partly to meet an internal drain, it may have been reasonable to earmark a substantial part of it for the latter purpose. But now that the second purpose has disappeared, and has in fact been abolished by law, so that the gold reserve of the Bank is held for no other purpose than to meet a foreign drain, the effect . . . is to forbid the Bank to use the greater part of its gold for the only purpose for which it is held or could be used.'

The rigid linking up of gold and currency which compels the contraction of domestic credit because some quite fortuitous circumstance, like an American boom or a Paris panic, withdraws our gold, and only enables domestic expansion to take place when the foreign exchanges are favourable, are obvious objections to a system which is no longer required in order to maintain public confidence. The experience both of the War and of recent weeks confirms the view of the Macmillan Committee that even the most severe crisis does not lead to an internal demand for gold in this country.

48. Presumably the Macmillan Committee intended the note issue to continue to be covered by the same type of security as has covered the fiduciary issue in the past. It has been suggested that a preferable type of security would be, as in the United States, the bill of exchange, on the ground that the currency would then be expanded only in proportion to actual business done and reduced again as the business was

completed. The American system is described by Sir F. Williams-Taylor in Appendix Three, and the subject undoubtedly deserves consideration. We have not, however, seen sufficient evidence of the inadequacy of the present system to adapt itself to our current needs—once the present rigid link with gold is severed—to warrant our recommending any changes beyond those advocated by the Macmillan Committee.

49. While the Macmillan Committee recommend the retention normally of a large gold reserve for exchange purposes it is obvious that, once our trade balance was on a sounder footing, and in the absence of over-investment abroad or excessive short-term borrowing to support such investment, the gold reserve could be reduced to a comparatively narrow margin. That would undoubtedly result in a large saving of gold, which would be correspondingly increased if other countries followed our example.

EMPIRE CURRENCY CO-OPERATION

50. It is a remarkable fact that in the whole of the Report of the Macmillan Committee there is not a single word to suggest that there is such a thing as the British Empire, still less any consideration of the question whether, in this vital field of money policy, some more effective inter-Imperial co-operation than exists at present has not become necessary. Such co-operation, as has already been mentioned, does exist between the United Kingdom and certain parts of the Colonial Empire. By maintaining permanent parity of exchange, and by dispensing with the use of gold, it has been of great value to all the parties concerned. But no attempt has been made to carry the principle of co-operation into effect in the relations between this country and the Dominions and India. From that point of view the Empire as a whole lives in a state of monetary chaos. It is true that the question was raised, at the instance of New Zealand, at the Economic Conference of 1923. But the view then taken was that we were on the eve of a return to the gold standard which would automatically solve all difficulties.

51. The British Empire is not in the political sense a unitary state. There is in it no central authority, as in the French Empire, which could impose a single currency system. Any monetary unity that is attainable must be arrived at by free co-operation. Such co-operation might be limited to carrying to its most effective point the kind of co-operation envisaged internationally by the League Delegation and the Macmillan Committee. But it might go a great deal further. There would seem to be no inherent constitutional or practical difficulty in the Central Banking Authorities of the Empire agreeing to constitute a Central Bank of Empire which would act as a clearing bank for all the Central Banks of the Empire. The Committee do not, however, consider that there would be any advantages in elaborating in detail such a scheme or other proposals designed to achieve the same purpose. There is no insuperable difficulty in securing the desired end if once its importance is recognised by the governments concerned and the political will to achieve it becomes manifest. Here again the Committee, while admitting that the ideal solution would be a monetary system which secured for mankind generally a reasonable stability of prices and a measure of security against the disastrous sequence of alternate boom and depression, feel that, in the absence of sufficiently far-reaching international co-operation to effect such a purpose, the partner nations of the Empire should not neglect the opportunity afforded by the extent of their trade and resources to secure for themselves the benefits, throughout the Empire, of stable exchanges and of comparatively stable prices, and to give, by their success, an encouraging example to the world.

52. The establishment, over an economic unit of such magnitude as a developed British Empire might well become, of a single stable currency system such as we have adumbrated would not only result in a very large economy of bullion and its liberation for world currency purposes. It would in a large measure tend to control the monetary value of the precious metals and consequently of world currency generally. In the paper read by Dr. Gustav Cassel to the Institute of Bankers in May, 1931, he pointed out that since the War the American

dollar has, in fact, been an independent currency. The fact that the United States were rich enough to accept large quantities of gold from outside without allowing their gold to be used for an increase in the supply of means of payment, and had accumulated so much gold that they could pay out almost any amount without reducing the domestic supply of means of payment, made it possible for them to regulate the value of the dollar according to their ideas of American requirements and not according to the gold situation. So far, indeed, from the value of the dollar being adjusted to the value of gold, the value of gold, in his view, was adjusted to the dollar, and he attributes the beginning of the fall in prices largely to the mistaken policy of the Federal Reserve Authorities in trying to combat speculation by credit restriction instead of aiming at preserving the stability of commodity prices. If it is a good thing to have an ultimate goal to work towards, that goal, in the monetary sphere, might well be an Imperial sterling currency, so adjusted as to maintain reasonable price stability for the British Commonwealth, and so powerful as to govern, through the external trade of that Commonwealth, both the value of the metallic medium of exchange and, indirectly, the value of the currencies of the rest of the world—a *Pax Britannica* built up out of the present anarchy in the world's monetary affairs.

APPENDIX ONE

TRUSTEE SECURITIES OF THE DOMINIONS

Under the provisions of the Colonial Stock Act, 1900 (reproduced in the Trustee Act, 1925), the loans of Dominions and Colonies are admitted to the list of trustee stocks, under regulations which the Treasury is empowered to make, and the Treasury has hitherto required a Dominion or Colonial Government to declare its readiness to submit to the veto of the Crown, on the advice of Ministers in the United Kingdom, in respect of any legislation which appears to affect adversely the interests of the stockholder. This provision is constitutionally out of date, so far as the Dominions are concerned, as it is contrary to the general constitutional position crystallised by the Balfour declaration in 1926, and is repugnant to certain of the Dominions. It means that in reality the stockholder has no effective safeguard, because under the constitutional conventions which are now established it is unlikely that the Treasury could prevail upon the Government of the United Kingdom to disallow any legislation of the Dominions.

The Conference on the Operation of Dominion Legislation and Merchant Shipping Legislation, which reported in 1929 (Cmd. 3479), recommended that the legal power of disallowance by the Imperial Government should be terminated, by the appropriate means, except in respect of the obligations voluntarily assumed by Dominion Governments which desire admittance of their stocks to trustee status. The general position was stated by the Conference in the following terms:

'The special position in relation to the Colonial Stock Act, 1900, may conveniently be dealt with in this place. This Act empowers His Majesty's Treasury in the United Kingdom to make regulations governing the admission of Dominion stocks to the list of trustee securities in the United Kingdom. One of the conditions prescribed by the Treasury which at present govern the admission of such stocks is a requirement that the Dominion Government shall place on record a formal expression of its opinion that any

Dominion legislation which appears to the Government of the United Kingdom to alter any of the provisions affecting the stock to the injury of the stockholder or to involve a departure from the original contract in regard to the stock would properly be disallowed. We desire to place on record our opinion that, notwithstanding what has been said in the preceding paragraph, where a Dominion Government has complied with this condition and there is any stock (of either existing or future issues of that Government) which is a trustee security in consequence of such compliance, the right of disallowance in respect of such legislation must remain and can properly be exercised. In this respect alone is there any exception to the position as declared in the preceding paragraph.

'The general question of the terms on which loans raised by one part of the British Commonwealth should be given the privilege of admission to the Trustee List in another part falls naturally for determination by the Government of the latter, and it is for the other Governments to decide whether they will avail themselves of the privilege on the terms specified. It is right, however, to point out that the condition regarding disallowance makes it difficult, and in one case impossible, for certain Dominions to take advantage of the provisions of the Colonial Stock Act, 1900.'

The recommendation urged herein is that the practice, of requiring a Dominion Government to submit to the right of disallowance of legislation affecting trustee stocks, should be terminated.

The procedure which we propose should be substituted is as follows. A Dominion Government desiring trustee status for a loan would give a general assurance that it would not act in such a way as to prejudice the interest of the stockholders, and it would agree that if any action it took was, in the opinion of the British Government, contrary to that undertaking, it would be willing to submit its action, or failure of action in that respect, to arbitration by an inter-Imperial tribunal. The tribunal might be the body suggested by the Conference on the operation of Dominion Legislation for determining differences on justiciable issues between members of the British Commonwealth. This body would take the form of an *ad hoc* tribunal selected from standing panels nominated by the several members of the British Commonwealth. Alternatively, the tribunal might consist of three arbitrators, one nominated by each side to the particular dis-

pute, with an independent chairman. There are difficulties in the way of the Privy Council's acting as the arbitrating body, but the exact constitution of the body is not of immediate importance.

If this system were adopted, a case would, if the necessity arose, be presented to the inter-Imperial court by the British Government, acting in the interests of the stockholders. We do not envisage the right of individual stockholders to approach the court. Should the decision of the court be given against a Dominion, the Dominion would take steps to remove the source of damage to the stockholders' interest, in order to fulfil the undertaking given when the stock received trustee status. It is not contemplated that a whole policy or course of legislation which might contingently impair the stock should be the subject of arbitration. Arbitration would take place only on legislation which was deemed specifically to endanger the value of the security, and to violate the undertaking given in respect of a particular issue. A major factor in the terms on which a Dominion loan is floated is the opinion of the City on the standing of the borrower, and the procedure proposed will in no way affect the sanction which this provides. Existing trustee stocks of Dominion Governments would of course still be subject to the assurance given by the borrower to the Treasury at the time the stock was admitted as a trustee security. Our proposals would affect only future issues.

APPENDIX TWO

STAMP DUTIES AND BRITISH TRADE

Stamp duties in one form or another and at variable rates have been in existence in this country for a very long time, and accordingly there is a tendency to regard their continued existence as being in the natural course of things. They have consequently not received the attention which would at once be accorded to them were they being now proposed for the first time. Of course the outstanding objection to stamp duties lies in the fact that they are duties on transactions and, accordingly, tend to limit the number of transactions which take place and thus are directly a restriction on the activity of many forms of trade.

At the present time when the problem of raising sufficient revenue to meet our national expenditure is an exceedingly acute one, it would naturally be impossible for any Chancellor of the Exchequer to contemplate any root-and-branch reform of the duties; but nevertheless, as the time may come when such a reform will be financially possible, it is desirable that the examination of the problem should contemplate not only what may be possible in the near future, but also what might be done later on.

Apart from the undesirable aspect of stamp duties from the point of view of the general public, they are also a very fluctuating source of revenue to the Chancellor of the Exchequer, and in particular they can be relied upon to show a very heavy fall in yield precisely in those years when the Chancellor of the Exchequer is likely to find it difficult to make both ends meet. A few examples will show the extent of the fluctuations. In the year which ended March 31, 1921, a year marked by exceedingly good trade, until the last three or four months, the revenue from stamp duties amounted to £26,591,000, but in the following year (which was one of very acute depression in trade), the yield fell to £19,638,000. Thereafter the position steadily improved until in the year ended March 31, 1929, it reached the very large total of £30,060,000. There was then a

rapid decline over the next two years, and in the year ended March 31, 1931, only £20,650,000 was received in the Treasury. The estimate for the current year is £24 millions, which will almost certainly prove to be a substantial over-estimate.

When one comes to examine the duties in detail it will be found that the main fluctuations occur under two headings, namely, the duties paid in respect of transfers of stocks and shares and those paid in respect of capital of limited companies. As a matter of fact, in the last four or five years the aggregate revenue from the other sources of stamp duties, the principal items of which are the duties payable on the transfer of land and houses and the 2d. stamps on cheques and receipts, have been exceedingly steady, and practically the whole of the fluctuation in the total yield has been the result of fluctuations in connection with the transfer of stocks and shares and the capital duty on limited companies. The proposals that will be considered in this Memorandum relate exclusively to this section of the stamp duties, the yield of which is such an unreliable support to a Chancellor of the Exchequer in times of adversity.

At the moment of writing the revenue from the stamp duties in these two groups is at a lower level than for many years past. Unfortunately the precise details for the year ended March 31, 1931, are not available, but the following table shows the position in the previous year:

Year ended March 31, 1930

	GREAT BRITAIN
Companies' share capital duty	£3,771,000
Stocks, Shares, Debentures, etc.	
Transfers of stocks and Shares — On sale	5,525,756
Transfers of stocks and Shares — Voluntary dispositions	45,734
Composition for duty from Corporations, etc.	379,500
Share Warrants to Bearer	150,454
Marketable Securities transferable by delivery	659,440
Bonds, Debentures, etc. (at 2s. 6d. per cent duty)	147,566
Loan Capital Duty	37,499
Contract Notes (Stockbrokers)	318,625
Letters of Allotment	5,226
Total	£11,040,800

Before proceeding to make any proposals as to any changes that might be made in the stamp duties of a kind calculated to be of advantage to British trade, it is necessary in the first place to set out what are the present rates of duty. In the case of Limited Companies the capital duty in respect of the shares is £1 upon every £100 worth of nominal capital, but in the case of loan capital, whether raised by Local Authorities or Limited Companies, the rate is 2s. 6d. on every £100, of which 2s. is repayable if the capital is applied in conversion of an existing loan. Furthermore, under the Finance Act of 1927, where a company is established or has increased its capital after the commencement of the Finance Act of that year, in order to acquire the undertaking of, or not less than 90 per cent of the issued share capital of, any existing company, and the consideration for the acquisition consists as to not less than 90 per cent in the issue of shares of the transferee company to the existing company or its shareholders, certain relief is granted from the company's capital duty.

The stamp duty on transfer on the sale of stocks or shares is at the rate of 1s. for each £5 or part of £5 of the sale value up to a total of £50. Thereafter it is at the rate of 5s. for each £25 or part of £25 up to £300, and thereafter 10s. for each £50 or part of £50. This scale of duties, except for the graduation in respect of smaller sums, is fundamentally a duty of £1 for each £100 of the sale price of the stocks or shares transferred. The same scale applies not only to stocks and shares, but also to marketable securities, which include the registered bonds and debentures of companies, corporations and public bodies.

As bearer securities would escape the taxation on transfer which applies to registered stocks, shares or marketable securities, an attempt is made to equalise the position by charging on the issue by a British Limited Company of share warrants or stock certificates to bearer a sum equal to three times the duty chargeable on a transfer of a similar nominal value of stocks or shares. Ignoring the graduations one may say, therefore, that roughly in respect of the issue of share warrants or stock certificates to bearer there is payable at the time of issue a stamp duty of £3 per cent.

In connection with such warrants or certificates issued by foreign or colonial companies the stamp duty payable is 4s. per £10 or £2 per £100. This stamp duty is payable on the first negotiation in the United Kingdom of such warrants or certificates. Presumably this duty only applies where there is a public issue in this country of such warrants and certificates, for so far as individual transactions may be concerned there is no means by which such would come to the notice of the Inland Revenue Authorities. We accordingly have the anomaly that if a British Limited Company raises money by the issue of share warrants or stock certificates to bearer, such a company has to pay in stamp duty 50 per cent more than the amount which would be payable by a foreign or a colonial company making an issue of similar bearer bonds.

Another anomaly arises in connection with the stamp duties payable on marketable securities (*i.e.* bonds or debentures) which are transferable by delivery. The stamp duty payable on issue by British companies, municipalities or public bodies is at the rate of 4s. for every £10 or part thereof where the bonds are repayable at any time exceeding three years, with lower rates of duty for shorter periods, that is to say, the stamp duty payable is equivalent to £2 per cent on all bonds exceeding three years in duration. On the other hand, where such bonds or debentures are issued by a Colonial Government the stamp duty is only 5s. per £100, while in the case of a Colonial Municipality the duty is 2s. for each £10 or part of £10, or the equivalent of 20s. per £100.

The foreign share certificate to bearer, the rate of duty on which was fixed as long ago as 1889, is at the low rate of 3d. for £25, or part thereof, payable on the first negotiation in the United Kingdom. This is equivalent to 1s. per £100 and contrasts with the £3 per £100 payable in respect of share warrants issued by British companies. The duty is calculated on the nominal value of the shares to which the certificate relates and, accordingly, where the shares have no par value no duty is payable. It is well known that in recent years in both Canada and the United States there has been a rapid growth of the practice of issuing shares of no par value, and as a

result of our present system of stamp duties no stamp duty is payable when such certificates are first negotiated in the United Kingdom.

The following are a few select instances of share capital passing by delivery. All these shares do, in practice, in the vast majority of transactions, pass from hand to hand and the equity passes by delivery. The table shows very clearly the extraordinary differences which exist in respect of the liability to stamp duty.

1. *Registered in the United Kingdom.*		
British American Tobacco Bearer Shares.		Duty £3 per £100 nominal.
2. *Registered in Canada.*		
Canadian Pacific Railway Shares Ordinary Shares of $25 each.		Duty 1s. per £100 nominal.
Brazil Traction Ordinary Shares	No par value shares.	No duty payable.
International Nickel Ordinary Shares - -	,,	,,
3. *Registered in the U.S.A.*		
Woolworth Shares ($10)		Duty 1s. per £100 nominal.
New York Central Railway Shares (Common $100)		Duty 1s. per £100 nominal.
International Telephone and Telegraph Common Shares	Shares of no par value.	No duty payable.
4. *Registered in Holland.*		
Unilever (N.V.) Ordinary Shares of Fl. 12 or £1 each Do. Preference ,, ,,	Endorsed Shares in the name of Midland Bank Executor & Trustee Co., Ltd., but cannot be transferred.	Duty 1s. per £100 nominal.

5. *Registered in Sweden.*

SWEDISH MATCH Ordinary Shares of Kr. 100 each.	Shares in individual names with coupons attached but registration effected without exchanging Certificates, therefore only one Inland Revenue Stamp paid at the following rate.	Duty 1s. per £100 nominal.

Having stated the present position in respect of the stamp duties on capital issues, let us now turn to the consideration of the modifications it may be desirable to make. In the first place it is evident that the high rate of stamp duties tends to restrict the formation of limited companies, and all the more so as the duties are payable not on the capital issue, but on the nominal registered capital.

Having regard to the great advantages of the limited liability principle in the development of business, it is certainly a bad thing that taxation should limit its use. Accordingly, on general grounds and without at the moment considering the question of revenue, we would urge the desirability of a reduction in the rate of stamp duty on the share capital of British registered companies.

The rate of duty charged in respect of the loan capital of British companies, corporations and local authorities is so small that there does not seem to be any need for a change. When, however, we come to consider the position of marketable securities transferable by delivery, it seems an anomaly that the rate in respect of United Kingdom securities should be so much higher than those of Colonial Governments and Colonial Municipalities. There seems a clear case for bringing this rate at least down to that fixed for Colonial Municipalities, and, on the principle that, while favouring an Imperial policy, there should nevertheless be some advantage to United Kingdom interests over those of the Empire overseas, it might be brought down to a level somewhat lower than that which applies to Colonial Municipalities.

Again, it is an obvious anomaly that the stamp duties in respect of stock certificates to bearer of British companies should be so much higher than those in respect of foreign and colonial companies, and accordingly there is a clear case for a substantial reduction. In order to give some encouragement to Empire countries over foreign countries, it would seem desirable that the stamp duty on the share warrants and stock certificates to bearer of Empire companies on their first negotiation in the United Kingdom should be reduced, while leaving unchanged the rate in respect of foreign companies.

It seems very strange that only a trifling stamp duty should be chargeable in connection with the first negotiation in the United Kingdom of foreign bearer share certificates, which are a device which enable foreign companies to obtain British capital without at the same time in the ordinary way according to the owners of that capital a measure of control. Under such a system the individual who has actually provided the capital finds interposed between himself and the company concerned some intermediary who actually holds the shares and, as a result, possesses the voting power.

On the other hand, in the case of share warrants and stock certificates to bearer in foreign companies where, of course, there is some measure of control, the rate of duty is forty times as great as in the case of the foreign bearer share certificates. There seems no reason why these certificates should not bear the same rate of stamp duty as share warrants and stock certificates. Furthermore, the investment which takes place in foreign companies through the existence of foreign bearer share certificates in respect of shares of no par value should be made liable to stamp duty by requiring that 40s. should be charged on the first negotiation in the United Kingdom on each £100 of the consideration paid in respect of that first negotiation.

If modifications are made on the lines indicated above, there would be created an increased tendency for the capital available to go, in the first place, to British investments, and in the second, to Empire investments overseas in preference to foreign investments.

We now turn to the consideration of the possibility of using the stamp duty on the issues of capital for the purpose of stimulating the purchase of British goods. This could well be effected by arranging for a complete remission of the stamp duty in respect of that part of the issue which is to be used for the purchase of British goods. If those who are raising the capital are in a position to give a firm undertaking in advance as to the expenditure out of the capital raised which will be devoted to the purchase of British goods, then the remission of stamp duty would take place at once, while in other cases where it was not possible to make a declaration in advance, provision could be made for the subsequent recovery of the stamp duty when the company or corporation concerned had supplied to the Inland Revenue Authorities satisfactory evidence as to the value of British goods purchased. Or, of course, these methods might be combined.

In the case of overseas enterprises, the phrase 'Purchase of British goods' will not need much definition, but in the case of money raised by companies or corporations in the United Kingdom it would be necessary to define clearly what expenditure is entitled to rank in respect of the remission of stamp duty. For example, if a company builds a factory in the United Kingdom, the actual labour must be employed in this country, and accordingly no advantage would accrue by making a remission of stamp duties in respect of the cost of that labour. On the other hand, the materials used in building the factory might be British or might be imported, and accordingly the remission of stamp duty should be in respect only of the value of the British materials used in the construction, and in respect of all the British plant and machinery installed. It would also be necessary to provide that the remission of the stamp duties should only apply in respect of expenditure which was debited to capital account. No doubt, on a careful examination of the problem, other considerations would present themselves, but at this stage it is only necessary to say that the definition clause in respect of the purchase of British goods would require very careful wording.

Having now indicated the possibilities of using a modifica-

tion of the stamp duties for the purpose of encouraging British industry, and for the purpose of Imperial development, we set forth a suggested rearrangement of the stamp duties which would give effect to the suggestions above.

Suggested Rearrangement of Stamp Duties in Respect of Share, Stock and Loan Capital

	PRESENT STAMP DUTIES PER £100 NOMINAL	PROPOSED STAMP DUTIES PER £100 NOMINAL
Share Capital of British Companies	20/–	10/–[1]
Registered Loan Capital of British Companies and Corporations	2/6	2/6[1]
Bearer Bonds of British Companies and Corporations	40/–	15/–[1]
Share Warrants and Stock Certificates to Bearer of British Companies	60/–	30/–[1]
Share Warrants and Stock Certificates on first negotiation in the U.K.—		
(*a*) Empire Companies	40/–	30/–[1]
(*b*) Foreign Companies	40/–	40/–[1]
Colonial Government Bearer Bonds	5/–	5/–[1]
Colonial Municipal Bearer Bonds	20/–	20/–[1]
Foreign Bearer Share Certificates on first negotiation in U.K.	1/–	40/–
Foreign Bearer Share Certificates in respect of Shares of no par value, on first negotiation in the U.K.	*nil.*	40/– PER £100 OF THE CONSIDERATION OF THE FIRST NEGOTIATION IN U.K.

Should this scheme be carried into effect, then, on the basis of the revenue of the year March 31, 1930, it would appear that, apart from the remission in respect of the purchase of British goods, there would be some small reduction in the receipts from share warrants to bearer and in respect of bearer marketable securities, *i.e.* bonds, debentures, etc., and some increase in respect of foreign bearer share certificates.

[1]In all these cases the duty will be remitted in respect of that part of the issue which is used for the purchase of goods manufactured in the U.K. Included in such goods will be the materials used for the construction of buildings.

Taking these three headings together, there would probably be some small net loss to the Exchequer. The reduction in the companies' share capital duty would be heavy, namely, about £1,900,000.

We now have to consider what would be the effect on the revenue of the remission of stamp duty in respect of the purchase of British goods. Here we are clearly in the region of surmise, but, as a provisional estimate, it may be suggested that it would reduce by half the revenue that would be left after taking into account the other modifications that have been suggested. Accordingly, on the basis of the 1930 figures, the whole revenue in respect of capital duties would be reduced from a total of about £5,140,000 to a little over £1,600,000. This is obviously a larger sum than could be contemplated at the present time and thus the scheme would require re-examination in the light of this fact. Probably the most effective modification would be to preserve the share capital of British companies at the present level of 20s. nominal, in which event the revenue, instead of being about £1,600,000, would be about £2,600,000. If it were felt that this would still be too large a loss, then a further modification could be made providing that initially the amount of stamp duty to be remitted in respect of the purchase of British goods should not be the whole amount of the duty but half the amount. In this case the net loss of revenue would be in the neighbourhood of £1,250,000.

In the past Issuing Houses in the City have presumably been concerned primarily with the merits of any issue from the purely financial point of view, but having regard to the vital importance of the prosperity of productive industry, it would seem very desirable that in the future the City should take into account not only the merits of an issue from the financial point of view, but also its effect on British production and employment. The recommendations made in this report if carried into effect would naturally force the City to take account of these matters, but it would be very desirable if those responsible in the City would voluntarily adopt a policy of using the power they possess in making arrange-

ments for public issues, to ensure that wherever possible the proceeds of those issues should be used for the purchase of British goods.

From the general trade point of view it would no doubt be very desirable that the stamp duties on the transfer of stocks and shares should be reduced from the high level which now prevails. The needs of national revenue probably rule out for some considerable time to come any change in this direction. When the time comes for making a reduction in these rates of stamp duties, it would seem to me desirable that consideration should be given to the possibility of making the rates preferential in respect of Home and Imperial securities as compared with foreign securities.

APPENDIX THREE

CURRENCY SYSTEMS OF GREAT BRITAIN, U.S.A. AND CANADA

BY

SIR FREDERICK WILLIAMS-TAYLOR

It is necessary to draw attention specially to the fact that this memorandum was prepared previous to the suspension by Great Britain of a gold standard.

GREAT BRITAIN—MONETARY SYSTEM

Under the Currency and Bank Notes Act of 1928 the Bank of England may issue notes against securities to the extent of £260 millions—the Fiduciary Issue. Above that amount every note must be covered by 100 per cent gold. Provision is made, however, that the Bank may increase the amount of the Fiduciary Issue at any time with the consent of the Treasury. This facility has been availed of in the present emergency.

The following is a copy of the Bank of England Statement for the week ended July 22, 1931:

Issue Department

Notes Issued:		Government Debt -	£11,015,100
In Circulation - -	£356,098,249	Other Govt. Securities	233,267,546
In Banking Department - - -	52,675,597	Other Securities -	11,625,738
		Silver Coin - -	4,091,616
		Amount of Fiduciary Issue - - -	260,000,000
		Gold Coin and Bullion	148,773,846
	£408,773,846		£408,773,846

Banking Department

Proprietors' Capital	14,553,000	Govt. Securities	£34,375,906
Rest	3,526,307	Other Securities:	
Public Deposits (including Exchequer, Savings Bank, Commissioners of National Debt, and Dividend Accounts)	16,373,298	Discounts and Advances £7,098,770	
Other Deposits:		Securities £31,976,676	
Bankers £60,179,250			39,075,446
Other Accounts £32,764,378	92,943,628	Notes	52,675,597
7 Day and Other Bills	1,454	Gold and Silver Coin	1,270,738
	£127,397,687		£127,397,687

The reserve of gold and notes in the Banking Department against deposit liabilities was 49·3 per cent. The reserve of gold in the Issue Department against the notes in circulation was 41·78 per cent.

OBSERVATIONS

It is alleged against the British system, first, that it is inelastic, *i.e.* that it checks expansion of home production unless that expansion is accompanied by such an improvement in exports as would bring more gold into the country, and secondly, that under it a demand for gold elsewhere for purposes entirely disconnected with the state of British industry (for example, for speculation in America) may reduce currency and credit at home just when they are most needed.

With regard to the first point, as England is largely a manufacturing country relying upon its export trade, it follows that the volume of production is dependent upon the demand from overseas, and it is doubtful if prices have often, if ever, been forced to a level resulting in the serious curtailment of that demand because of credit restrictions.

With regard to the second point, money will always seek the market where it can be employed to most advantage, but if it be practicable to establish measures to prevent the transfer of funds overseas from restricting the volume of credit available for British industry so much the better. But any

such measures that would impair confidence in the credit of the United Kingdom would defeat their object as their imposition would accelerate the withdrawal of foreign balances employed in the London market and force the Bank of England to raise its official minimum.

Upon London's prestige as a financial centre depends the ability of Great Britain to preserve the income earned in respect of international banking and associated services, which income, with that earned on foreign investments, has been sufficient to maintain a credit balance of payments, notwithstanding a substantial excess of imports over exports. At this time it would seem to be essential that confidence in this country's financial stability should be preserved, and this fact should be borne in mind in considering the Macmillan Committee suggestion to divorce our home currency from the gold basis and to use gold only to maintain the exchanges.

British bankers in general do not agree with the contention that industry in the United Kingdom has suffered from insufficient short credit. To-day we are experiencing a lack of demand rather than an under-supply of credit. There is probably room for some improvement in our organisation, say by the creation of a financial institution specially organised for the purpose of providing industry with longer-term loans than bankers are prepared to grant. It is assuredly contrary to good policy for our big banks to tie up thus any substantial proportion of their resources. The banking difficulties experienced on the Continent since the War have been attributable to no small extent to frozen loans in industry. The present financial crisis in Germany is an example.

The Bank of England regulates credit, and it is pertinent to say here that the volume of bank credit bears little or no relation to the note circulation. The perfection in the use of the cheque system in this country provides great elasticity in our credit system and relegates currency almost to the category of pocket money.

The Bank of England increases or reduces credit by operations in the open market, buying bills and securities when it wishes to implement available funds and selling these coun-

ters when it is deemed necessary to curtail credit. The official minimum is raised when the Bank finds it necessary to protect its reserve of gold, but it is contended that the effect of an increase of 1 per cent in the Bank Rate on production is infinitesimal.

So far as international trade is concerned the British system is indubitably a highly valuable factor in its development. The London discount market is pre-eminent, the sterling bill is regarded abroad as the nearest approach to gold and does in fact fulfil the functions of an international currency. Discount rates in London are not subject usually to such violent fluctuations as occur in other financial centres, and the knowledge and experience of the discount houses is of inestimable value.

It may be said without fear of contradiction that the British monetary system compares very favourably with that of any other country. Take France, where the monetary system is undeveloped. France has no discount market and the Bank of France is legally prohibited from operating in the open market and is therefore deprived of that means of regulating credit. Rediscount facilities are available to the other banks, but they are backward in using them for the reason that the Central Institution is in competition with them through its branches and agencies; moreover, the Bank of France usually charges 2 per cent over its official minimum for such facilities. Therefore, notwithstanding the vast accumulation of gold in the Bank of France, the other banks have been obliged to withdraw their balances from abroad in the form of the precious metal in order to obtain additional credit. The elasticity of the French system is limited because of an undeveloped cheque system and settlements are more usually effected in note currency.

UNITED STATES—MONETARY SYSTEM

THE FEDERAL RESERVE SYSTEM

The currency of the United States is largely Federal Reserve Notes which must be covered to the extent of not less

than 40 per cent in gold (except under special circumstances) and the balance of 60 per cent in certain forms of collateral, viz.,

(1) Paper endorsed by member banks and drawn for strictly commercial, industrial or agricultural purposes, or for the purpose of carrying or trading in securities of the United States Government, in other words paper which is eligible for rediscount at a Federal Reserve Bank.

(2) Bills of exchange endorsed by a member bank and bankers' acceptances bought by the Federal Reserve Bank in the open market.

(3) Gold and gold certificates.

Federal Reserve Notes are obligations of the United States Government and are a first lien on all assets of the Federal Reserve Banks. Member banks subscribe to stock in the Federal Reserve Bank to the extent of 6 per cent (one-half of which is paid up) of the capital *and rest* (*or surplus*) of the subscribing bank, and the uncalled portion of the subscription remains as a liability of the subscribing bank even in case the latter is bankrupt and the payment of the uncalled portion entails demand under the double liability clause. Member banks are able to obtain fresh currency against rediscounted paper or other 'eligible' paper, to the extent of 100 per cent of its face value, but of course such notes must be covered by a gold reserve of 40 per cent.

Federal Reserve Notes are redeemable in gold on demand at the United States Treasury.

The note issue enjoys a high degree of elasticity through the rediscounting privilege of member banks described above.

The power of determining the extent to which the Federal Reserve System as a whole should issue notes rests with the Federal Reserve Banks, but is understood never to have been exercised.

Federal Reserve Banks are required to maintain a reserve of 35 per cent in gold or 'lawful money', which incidentally includes 'silver certificates', against their demand deposits.

Member banks must maintain with their Reserve Bank

reserves against their demand deposits and time deposits, as follows:

BANKS	DEMAND	TIME
Central Reserve City Banks	13%	3%
Reserve City Banks	10%	3%
Country Banks	7%	3%

FEDERAL RESERVE BANKS

Federal Reserve Notes in circulation as at 8th July, 1931	$1,736,922,000
Against which gold was held	$1,994,380,000
Total Deposit liabilities as at same date	$2,527,346,000
Ratio of gold reserves to deposits and Federal Reserve Note liabilities combined	80·3%
Ratio of total reserves to deposits and Federal Reserve Note liabilities combined	84·2%

OBSERVATIONS

The Federal Reserve System is complicated, and without an intimate knowledge of its operation it is impossible to describe its influence on the credit structure of the United States. There are critics of the System within as well as without America.

The Federal Reserve System is centralised and controlled by the Federal Reserve Board in Washington, which includes the Secretary of the Treasury, but there are twelve Federal Reserve Banks in the United States spread over a vast area, many of them being from 1,000 to 3,000 miles from Washington. The Governors and Directors of these district central institutions determine, speaking generally, questions of policy in their respective districts, some of which are financial, others industrial or agricultural. Centralised control of general policy is therefore exceedingly difficult and co-ordination between the several districts almost impossible. A criticism levelled against the Federal Reserve Board is absence of objective.

It is also contended by some critics that the Federal Reserve System has no effective control over the banking system of the United States owing to the fact that only 26 per cent of the 30,000 banks in the country are members of the Federal

Reserve System, which cannot be said to be fully established until 100 per cent control is obtained. Another defect in the monetary system of the United States is that there are far too many small banks. If branch banking had been adopted in that country as in Great Britain and Canada and as recommended by Alexander Hamilton, from whom Canada got the idea, the difference it would have made to the United States is incalculable.

There is a discount market in New York, but it is undeveloped as compared with London and is not an important factor in the credit machinery. It is true there are some $1,300,000,000 American bank acceptances outstanding, but the Federal Reserve Board aims to regulate credit mainly by purchasing or selling Government securities (*vide* Section 14, Sub-Section (b) of the Federal Reserve Act), and not bills of exchange. Moreover, the most important single factor in the New York money market is not the bill market but the call loan market in which loans are extended against Stock Exchange collateral. This has obvious disadvantages. During the Stock Markets boom the large corporations in the United States took an active part in call-market operations, and their considerable lending powers were outside the control of the Federal Reserve Banks. Incidentally it is claimed that the Federal Reserve Board did not utilise the rediscount rate weapon in order to control the situation.

There is another feature of the Federal Reserve System which demands attention.

The official discount rates of the Federal Reserve Banks are maximum rates and not minimum rates, so that banks are able to make a profit on purchases by rediscounting with the former. The question as to whether the Federal Reserve rate should not be a penal rate, *i.e.* always higher than the outside rate for similar accommodation, is one of considerable controversy.

Federal Reserve Banks may not have directly encouraged the wild speculation that occurred during the boom, but Member Banks were able to utilise the rediscounting facilities with the Federal Reserve Banks provided under the existing

system and make advances with the proceeds against Stock Exchange securities.

The absence of Federal Reserve Bank control over the use of credit obtainable by Member Banks through discounting commercial paper is undoubtedly a weakness in the system. The many bank failures that occurred after the slump in America, and have occurred following the fall in real estate values and in commodity prices, points to a defect in the machinery.

Another criticism of the American system is that a vicious circle may result from the ability of the American banks to obtain credit freely on trade bills, as this increases purchasing power, which in turn creates more bills.

There are some who contend that credit does not expand and contract automatically with the needs of industry under the American system and that it is not effective in maintaining price levels. This, however, is a highly controversial question, and one on which it is dangerous to express an opinion without close study and investigation.

Finally, the Federal Reserve System came into operation after the commencement of the Great War, which was instrumental in converting the United States from a debtor to a creditor. Moreover, the vast accumulation of gold by America since 1914 has obscured the real situation, and made it difficult to determine whether the system is a good one.

The Federal Reserve System was created primarily to correct the currency and banking system, described as uncivilised, also to serve the domestic needs of the country. It cannot be claimed to have actively benefited international trade, partly owing to the comparatively undeveloped discount market, but chiefly, perhaps, owing to political influences.

THE CANADIAN MONETARY SYSTEM

DOMINION NOTE ISSUE

The Government is authorised to issue notes up to and including \$50 millions against a reserve in gold equal to one quarter of that amount (Dominion Notes Act, 1914).

An Act passed in 1915 empowered the Government to issue notes up to \$26 millions without gold cover (\$16 millions to be against specified Canadian Railway Securities guaranteed by the Dominion Government, balance of \$10 millions uncovered).

Notes in excess of \$76 millions may be issued, but such excess must be covered by gold, except as provided under the 'Finance Act' of 1914 (explained hereafter).

BANKS—NOTE ISSUE

Under the Canadian Bank Act, the Chartered Banks are authorised to issue notes to the aggregate of (a) the amount of the unimpaired paid-up capital of the bank, and (b) the amount of current gold coin and of Dominion Notes held for the Bank in the Central Gold Reserves.

To meet the heavy demand for currency during crop moving, each bank is authorised to issue from the first day of September to the last day of February additional notes to an amount not exceeding 15 per cent of its combined unimpaired paid-up capital and rest or reserve fund. Interest at the rate of not exceeding 5 per cent per annum is charged on this additional circulation.

Bank Notes are not legal tender.

All banks are required to maintain on deposit with the Government in a common fund an amount equivalent to 5 per cent of their average note circulation, excluding the value of notes covered by their deposit in the central gold reserve. This fund is held for the sole purpose of paying the notes of any bank should it suspend payment.

Bank Note issues are a first charge on the assets of the banks, and are in addition secured by the shareholders' liability, equal to the par value of shares, *i.e.* a double liability, as well as by the deposits of banks in the circulation fund referred to above.

Provision for the creation of additional credit facilities is furnished under the Finance Act of 1914, which permits the Minister of Finance to make advances to the Chartered Banks

by the issue of Dominion Notes against approved security of a very wide range:

(a) Treasury bills, bonds, debentures or stocks of the Dominion of Canada, Great Britain, any province of Canada, and of any British possession.

(b) Public securities of the Government of the United States.

(c) Canadian municipal securities.

(d) Promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax, or other commodity.

(e) Promissory notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes and which have been used or are to be used for such purposes.

The rate charged for borrowing under the Finance Act is fixed from time to time by the Treasury Board—it has remained at 4½ per cent since September, 1928. Repayments must be made in Dominion Notes.

TOTAL NOTE ISSUE MAY 31, 1931

Dominion Notes in Circulation—$152,250,000, against which gold was held equal to 56·36 per cent.

Bank Notes in Circulation—$143,750,000, against which deposits in Central Gold Reserve amounted to $29,130,000 and deposits with Minister of Finance in circulation fund amounted to $6,804,000.

N.B.—The total capital of the Chartered Banks on the same date was $144,500,000.

REASONS WHY CANADIAN BANK NOTES ARE A BETTER FORM OF CURRENCY THAN DOMINION NOTES

(Memorandum prepared by the late Sir Edmund Walker.)

The best paper money in the world, in my opinion, and the only paper money that should be permitted, except under stress of war, when everything is contrary to the usual, is such

a note as that issued by a Canadian Bank, and I shall now try to make that clear. It was suggested at the beginning of the War that bank notes be made a legal tender, but this we had the good sense to refuse. The fundamental thing about the Canadian Bank Note is that it is issued always to perform some credit service; it generally goes out to do something definite. After it has done that one thing, and perhaps a second or third thing, it comes back and is redeemed and disappears. It is only a temporary instrument put out to perform a service, and when it performs that service it comes back and is killed.

So far as its security is concerned, it is the first charge upon the bank, ahead even of the state, and every bank guarantees by a very simple system the notes of every other bank. We thus have a quality which we did not have 'originally', although the National banking system of the United States did—that in no circumstances can any private individual lose on bank notes by the failure of the bank or through geographical reasons, because the note is a long way from home. Every Canadian bank is forced to have in every Province of Canada a centre of redemption. So we have a circulation which can only be inflated because prices are inflated and an undue amount of loans have been made by the bank. When prices fall and loans are restricted the bank-note circulation at once lessens in volume in precise accordance therewith.

The notes issued by a state bank or any notes issued by a government, if they are legal tender do not come back regularly for redemption. They will, if the individual holding them needs gold; but as a matter of fact there is no such thing as the daily withdrawing of such notes after they have performed their particular service. If they are notes of the government, I ask you to remember that their mission each time they go out is to transfer a mere evidence of debt from one man to another; they are only an evidence that the government owes money to somebody, not that some commodity is being produced or moved to market. The money passes by virtue of a fiat, and is apt to stay out, because it is a legal

tender. This is the difference between the two systems. You can have a country most seriously inflated by the issue of too much fiat money. You will find very few countries in the world where the privilege of note issue is left to the banks. In almost every country that privilege is sooner or later taken away from the banks and given to the government, or to a central bank, which is the government instrument. The reason for that is almost invariably the same; war has caused the country to resort to some form of expressing debt, one form of which has been an issue of legal tender money, and almost always the banks' circulation privileges have been taken away in order to put this into circulation.

OBSERVATIONS

The Canadian monetary system has proved itself in point of elasticity entirely adequate to take care of the progressive needs of the country during its rapid development. On no occasion has the financial machinery failed to satisfy the demands made upon it.

A feature of the system has been the stability of interest rates over a long period of years, and this, it must be admitted, is an inestimable advantage to the trade and industry of the country. During the War years, and again during the stock markets' boom when rates were prodigiously high in other monetary centres, the rate in Canada for good commercial loans remained at 6 per cent per annum.

The Dominion Government and the Canadian banks have concentrated upon domestic needs, and with success. The currency is fully secured and productive capacity has never been impaired because of insufficient credit. Ample resources are available to enable the banks at all times to finance industry, particularly agriculture, for which special provision is made as indicated above.

The relationship of the Canadian monetary system to international trade is remote. There is no Central Bank or money market in the Dominion such as exists in other countries. There has been no occasion for Canada to develop its monetary system internationally, and it is pertinent to mention

that its comparative isolation in this respect has proved of distinct advantage during recent times when the great financial centres have been involved in serious difficulties. Had Canada possessed a short-loan market it would have inevitably suffered the embarrassment of heavy withdrawals of funds, with the consequent evils—heavy exchange depreciation, loss of gold and loss of credit, more especially as the depression in commodity prices, particularly wheat, has made Canada's trade balance adverse during the last year or two.

As it is, although Canada has been off a gold basis for a period her credit has remained unimpaired during these times of crisis, as is evidenced by the fact that Government Securities are on a $4\frac{3}{8}$ per cent basis, while Provincial and good Municipal Securities are on a $4\frac{3}{8}$ per cent to $4\frac{3}{4}$ per cent basis—all approximate.

It may be that in good time, when the greatly desired international financial co-operation is established, Canada will have to reorganise on international lines. Meantime, she is a young country faced with the problems incidental to rapid development, and it is scarcely surprising that she is disinclined to become involved in monetary matters of an international nature. The several crises that have occurred recently, the criticisms levelled against monetary systems in the older countries, and the absence of co-operation fiancially between the great nations prove that it is good policy for Canada to bide her time.

A STERLING MONETARY SYSTEM

BY

THE RIGHT HON. L. S. AMERY, M.P.

The gold standard as the basis of international exchange and credit has broken down, and there seems little prospect of its early restoration. For, to secure that, it would be necessary that the balance of world payments should be redressed by a complete change in the fiscal policy and investment habits of the nations primarily concerned, more particularly of the United States, whose immense economic expansion has been the real underlying cause of the dislocation.

A settlement of the question of reparations and war debts, even if it could be achieved to-morrow, would still leave us a long way from the solution of the problem, as a glance at the actual figures will remind us. After all, the total net payments on this score by the outside world in 1930 to France and the United States were only £16 millions and £50 millions respectively. It will help our perspective to realise that up to and including 1929, immigrant remittances from America to Europe actually exceeded European payments to America on account of war debts. In the same year the world's commercial debt to the United States for goods bought over and above goods sold was £156 millions, and on net payments of interest on investments £122 millions. The remission of war debts can therefore only afford a partial relief. There can be no direct and immediate cure for the dislocation of the gold standard unless the United States is prepared to take its immense credit balance in goods, or to spend it more systematically on external investment and travel. In the present mood of economic nationalism in the United States there is little likelihood of such a change coming about in the near future. An easier alternative, because it is within our own control, is to reduce America's export balance—of which six-sevenths arises out of her trade with this country—by a change of fiscal policy on our own part, and by the adoption of an

Empire policy which will not only displace American produce by Empire produce in this market, but also displace American manufactures by British manufactures in the Empire markets. Such a policy, by its development of Empire resources, would probably also tempt a considerable volume of American money into Empire investment, particularly in Canada.

Such a change in the world's economic balance must necessarily take time. In the meanwhile are we to be condemned to an indefinite continuance of financial anarchy? Is there no medium to our hand sufficiently widely accepted, or acceptable, to enable a large proportion of the world's business to be conducted at a remunerative price level, with sufficient freedom from price fluctuation to provide a basis on which contracts and investment can proceed with confidence? My reply would be that in British sterling we have a medium which already largely fulfils these requirements, and which can be made to fulfil them so adequately as to make a return to the old system a matter which we can afford to consider upon our own terms at our own time.

It is essential to begin by remembering that the area over which sterling is the recognised standard is very much larger in extent, and very much better balanced economically, than the United Kingdom itself. The sterling area includes, normally, the greater part of the British Colonial Empire, in some parts of which British currency is actually legal tender, while over most of the rest the local currency is kept at permanent exchange parity with sterling by the operation of currency boards. The Irish Free State among the Dominions, and Egypt and Iraq among countries closely associated with the Empire, also by various devices have normally kept their currencies linked with sterling. Since we have gone off the gold standard India has followed suit and attached its rupee to sterling. Australia and New Zealand have done the same, though at a parity below normal. Canada and South Africa, it is true, have so far remained outside; Canada in a half-way position corresponding to the balance between her interests as an exporter and her financial obligations across the border; South Africa, at the cost of severing herself from the Rho-

desias, and to the injury of both her mining and agricultural interests, for no stronger reason apparently than to assert her national self-sufficiency. The Scandinavian countries, to all intents and purposes, followed sterling, while not a few other countries, including Finland, Portugal and Japan, are off the gold standard and are uncertain of their future attachment. The sterling area, in the looser sense, including its penumbra of countries outside the Empire, to-day embraces a population of well over 500 millions. It is in a considerable measure self-sufficing and could become almost completely so. It is this extensiveness of sterling which has, in fact, prevented our departure from the gold standard from having the serious effects which were at first anticipated. Prices have remained stable, and we have, so far at any rate, enjoyed a double advantage in the fact that the majority of our most serious industrial competitors, Germany, Belgium, France, and the United States, have remained on the gold standard, while the bulk of those who supply us with essential foodstuffs and raw materials are on sterling or more or less conforming to it.

What is necessary to give to this informal system yet greater extension and permanence? Obviously any measure which increased mutual trade within the sterling area and diminished its dependence on the outside world, or which stimulated investment within the area, would strengthen the sterling standard. Such would be the result of any system of Imperial Preference which might follow from the Ottawa Conference. This would enhance the desirability of adhering to sterling even for countries outside the Empire and so excluded from Imperial Preference. The sterling area and the area of Imperial Preference need not necessarily be coextensive. At the same time the more coextensive the better, and there is much to be said, once we can get rid of the shackles of the most-favoured-nation clause, for something in the nature of a system of second preferences for countries which, while outside the Empire, are still closely associated with us, whether as suppliers or as a field for investment, if they on their side are prepared to reciprocate in trade as well as in adherence to sterling.

How far is it possible that such a system should continue to be based on United Kingdom sterling as it is at present, the other members of the sterling system simply attaching themselves to it as long as it suits their convenience, without becoming in any way responsible for its control? There is no doubt that the financial system of this country commands great confidence outside. While it is true that we have gone off the gold standard and that sterling is a managed paper currency, it is also true that it is managed, not by a Government subject to ordinary party influences and administrative exigencies, but by a powerful independent corporation carrying on a great tradition and imbued with a high sense of national and international responsibility. It is no less true that England as a great creditor country, the bulk of whose lending has been in terms of sterling, has every inducement not to reduce its own income from overseas by depreciating its currency. From the point of view, indeed, of those who are considering adherence to the sterling system, especially if they are actual or potential borrowers, the danger to be anticipated from leaving the management of sterling to the uncontrolled discretion of London, lies much more in the tendency to keep sterling too high than in any likelihood of reckless inflation.

At the same time it is not unnatural that, within the Empire at least, the definite substitution of sterling for gold as a permanent or semi-permanent arrangement—and, after all, the more permanent the better—should lead to a desire that the management of our Imperial monetary system should not be left entirely to a London institution reflecting a predominantly City point of view. A great country like India, or Canada, if it comes in, will wish in some way or other to have its say in the settlement of matters which may so profoundly affect its whole economic life. The logical solution, and one to which there seems to be no inherent constitutional or practical difficulty, would be the creation, by the central banking authorities of such Empire countries as wished to take part in it, of a Central Bank of Empire, which would act as a clearing bank for all of them, and as the source of a 'money of account'

which would be the basis on which local currencies would be issued and by which they would be kept united. Such a system would, no doubt, present great advantages, not only from the point of view of overseas sentiment, but also from the point of view of the efficiency with which it might contribute to Empire development. But it also may be possible to secure some at any rate of these advantages, following lines of less resistance, by changes in the composition of the Board of the Bank of England itself, which would give it a more definitely Imperial outlook, or by some system of regular conference or consultation with the other central banking authorities of the Empire. To quote the conclusion on this point of the Report on Empire Monetary and Financial Policy by the Joint Committee of the Federation of British Industries and the Empire Economic Union, 'there is no insuperable difficulty in securing the desired end if once its importance is recognised by the governments concerned and the political will to achieve it becomes manifest'. The problem is clearly one which should be discussed at the Ottawa Conference or at a special Empire Monetary Conference.

Whether the sterling system of the future rests upon some new structure such as that of a Central Bank of Empire, or upon nothing more formal than a voluntary linking up with United Kingdom sterling, the basis of sterling itself and the system of its management will remain of primary importance. At present sterling consists of a note issue of an arbitrary figure (£260 millions) of pounds, the fiduciary issue, fixed in 1928, with a limited margin for increase (now £25 millions), plus such notes as are issued against gold. The Macmillan Report recommended an arbitrary total of £400 millions (with some power of variation) irrespective of the amount of gold held, the place of gold being taken by securities when the gold was sent away to meet exchange requirements. Now that we are off the gold standard that is, presumably, the principle on which it is proposed to work.

It is, however, necessary to keep in mind that the Macmillan Committee's recommendation was concerned with the requirements of the United Kingdom alone, and assumed that

the question of the price level would have to be a matter for international action. Once it becomes a case of substituting sterling for gold as the basis of currency over the largest possible extent of the world's surface, and of so adjusting it as to secure and maintain a price level at which the wheels of production and exchange will again go round efficiently, we have to consider whether the purely arbitrary basis on which sterling now rests is sufficient for the purpose, or whether it may not become desirable to give it greater elasticity, by the inclusion of commercial bills in the currency backing or in other ways.

In this connection the inclusion of silver in our sterling system seems to merit serious consideration. Now we are off the gold standard the function of gold in our monetary system is simply that of an asset of value behind the note, not differing essentially from any other form of security behind the note, except in the fact that it is a very useful commodity for exchange purposes. That quality is also possessed in a considerable measure by silver, and the general character of our monetary system would not be affected if the Bank of England, or the Bank of Empire, as the case might be, were empowered to hold silver up to any proportion that was thought reasonable, at market price, against its note issue.

Such a step would directly raise the purchasing power of China[1] and, in a lesser degree, of India, where hoarded silver has always played the part of a secondary or reserve currency among the people, brought out to settle major expenses, such as weddings and funerals, and to meet the moneylender in times of famine. It would, of course, greatly strengthen the Indian Government's rupee reserve, and increase India's interest in remaining anchored to sterling. Personally I should be prepared to go further, and to arrange with India for the free and unlimited convertibility in London and at the

[1]See Report of the British Economic Mission to China, page 127: 'The continued depreciation of the value of silver has enormously reduced the purchasing power of China. . . . In our opinion every means should be sought of bringing about the stabilisation of silver and so of restoring to China her full purchasing power.'

Indian Mint of sterling and silver at a fixed rate. The ideal rate would be one which would give to the rupee its intrinsic value, a figure which, with the present depreciation of sterling, would not represent nearly so great an increase of silver value as it would have six months ago. Whatever the rate fixed, the effect of such a step would be not only to link India more intimately with sterling, but to bring China, Persia, Mexico, and probably certain other American countries automatically inside the sterling area. Not only would the sterling area itself be enlarged, but its members would enjoy the advantages of a permanently stable exchange with the silver using countries.

The notion that silver can only be dealt with by international agreement on a comprehensive scale is based on the assumption that there is an enormous volume of silver either latent in the mines, or hoarded, which will be poured out the moment its value is raised. As a matter of fact, the more formidable critics of the proposal to ease the world monetary situation by means of silver to-day are those who object that even a very great increase in the price of silver will not add enough to the world's currency to be of real assistance. Of the annual production of silver 70 per cent is by-product and practically unaffected by the price of silver, while the output of the 'straight' silver mines in Mexico and Peru, etc., which yield the remaining 30 per cent, is not likely, judging by the effect of previous price variations, to be very largely increased even by a price of 4s. sterling an ounce. And an increase on their part of even 50 per cent would only mean an increase of 15 per cent, *i.e.* 30–45 million ounces in the total output. Considering that, since the War, production from the mines has never met the demand, and that the total shortage from 1920 to 1930 inclusive, but for the sale of Government demonetised coin, was some 328 million ounces, there is really no fear of a silver deluge from the mines. Nor does past experience suggest that even a considerable rise of price would bring any large quantities of hoarded silver into general circulation. The conclusion I would, in fact, draw from the figures is that the amount of silver available is not more than would be

readily absorbed, without inflation, by an enlarged sterling-silver area with a population of some 1,000,000,000, of whom three-quarters still live in a political and economic environment in which a metallic medium and basis has great advantages over an inconvertible token or paper currency.

The restoration of sterling to its original linking with silver would not, of course, mean the elimination of gold. As a medium of exchange with the gold-standard world and as an alternative backing for currency, gold would continue to play its part. As the balance of trade and investment became increasingly favourable, more of the existing stock or new supply of gold would be attracted into, or remain within, the sterling area, and the conditions for a more definite linking up of the gold and sterling areas would be created. Whether that would take the form of the restoration of a fixed gold-exchange parity in the sterling area would depend, no doubt, upon the course of events. There is much that is attractive in the conception of a gold convertibility, not at a fixed rate, but at a rate varying with the index of wholesale gold prices, as an automatic device for keeping sterling stable in terms of commodities.

I am profoundly conscious of the rashness with which, as a mere amateur, I have ventured to throw out what many of the readers of *The Banker* will feel tempted to dismiss as ill-considered suggestions based on very inadequate knowledge. May I plead for their indulgence, and ask them to overlook the technical defects of my presentation of the case, and to keep their minds fixed on the underlying theme. That theme I would state as follows. The international gold standard has broken down because it has proved incapable of coping with economic nationalism, more particularly when that nationalism has been developed on the American scale. To restore it requires a measure of international agreement not only as to reparations and war debts, but as to tariff and investment policy which is to-day unattainable. The only practical conclusion is to secure the widest area we can within which a single monetary and exchange system can be sustained by mutual trade and by a far-sighted and consistent policy of

investment. The British Empire, British sterling, and the financial ability that is centred in the City of London can between them furnish the essentials of such a system which, if rightly developed, could draw most of the rest of the world into its orbit.

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